ORIGINAL

DIVISION OF CONSUMER ADVOCACY
Department of Commerce and
Consumer Affairs
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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)) WAI'OLA O MOLOKA'I, INC.)) For Review and Approval of Rate Increases;) Revised Rate Schedules; and Revised Rules)	DOCKET NO. 2009-0049

DIVISION OF CONSUMER ADVOCACY'S
DIRECT TESTIMONY AND EXHIBITS

Pursuant to the Stipulated Regulatory Schedule approved in Order Approving Proposed Procedural Order, as Modified filed on November 6, 2009 the Division of Consumer Advocacy ("Consumer Advocate") was to file its Direct Testimony and Exhibits on January 8, 2010. Pursuant to its letter dated January 6, 2010, requesting extension of time to file its Direct Testimony and Exhibits until January 13, 2010, the Consumer Advocate submits its **DIRECT TESTIMONY AND EXHIBITS** in the above docketed matter.

DATED: Honolulu, Hawaii, January 13, 2010.

Respectfully submitted,

By [signature]
DEAN NISHINA
Executive Director
DIVISION OF CONSUMER ADVOCACY

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CA-T-1
DOCKET NO. 2009-0049

DIRECT TESTIMONY AND EXHIBITS

OF

DEAN NISHINA

THE DIVISION OF CONSUMER ADVOCACY

SUBJECT: POLICY, REVENUE REQUIREMENTS, RATE DESIGN

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DIRECT TESTIMONY OF DEAN NISHINA

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME, POSITION AND PLACE OF EMPLOYMENT.

A. My name is Dean Nishina and I am the Executive Director for the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs ("Consumer Advocate").

Q. PLEASE STATE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. Please see Exhibit CA-100.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing testimony on the Consumer Advocate's policy and all matters related to the recommended revenue requirements associated with the application filed by Wai'Ola O Moloka'i, Inc. ("WOM" or the "Company"),[1] wherein the Company requests Commission approval for an increase of over 380% in its present rates. WOM's proposed allocation of this increase will

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[1] The Company filed its application on March 2, 2009. On March 30, 2009, the Consumer Advocate filed its Statement of Position on completeness, wherein the Consumer Advocate objected to the Hawaii Public Utilities Commission ("Commission") finding the application complete since WOM's application did not include audited financial statements. In the Order Denying Wai'ola O Moloka'i, Inc.'s Request to Submit Its Unaudited Financial Statements in Lieu of Audited Financial Statements filed on April 2, 2009, the Commission required WOM to file an amended application that included audited financial statements. That amended application was filed on June 29, 2009.

affect existing rates in the following manner:

MONTHLY STANDBY CHARGES

METER SIZE	PRESENT RATES	PROPOSED RATES	PERCENT INCREASE
5/8" and ¾"	$5.00	$24.00	380.0%
1"	$10.00	$48.00	380.0%
1 ½"	$10.00	$48.00	380.0%
2"	$25.00	$121.00	380.0%
3"	$50.00	$242.00	380.0%
4"	$75.00	$363.00	380.0%
6"	$150.00	$726.00	380.0%
8"	$250.00	$1,207.00	380.0%

OTHER MONTHLY CHARGES

DESCRIPTION	PRESENT RATES	PROPOSED RATES	PERCENT INCREASE
Private Fire Protection Rates			
Per Hydrant	$3.50	$16.80	380.0%
Per Standpipe	$2.50	$12.00	380.0%
Others: per in. diameter	$2.50	$12.00	380.0%

CONSUMPTION CHARGES

	PRESENT RATES (PER 000 GALL)	PROPOSED RATES (PER 000 GALL)	PERCENT INCREASE
Water consumption charge	$1.85	$8.9675	384.7%

Besides the above summarized changes, the Company is also proposing to modify other tariff charges as summarized on page 10 of the application and provided in greater detail on Exhibit WOM 4 (present rate schedule) and Exhibit WOM 5 (proposed rate schedule). The Company is also proposing to introduce an automatic power cost adjustment clause

("APCAC"), which would allow the Company to either increase or decrease the amount of revenues collected from customers based on a corresponding increase or decrease in the cost of electricity incurred as a result of the charges received from the Company's electricity service provider, Maui Electric Company, Ltd. Also, besides the proposed changes to its monthly charge and usage rates, the Company is seeking to modify its reconnection fee by increasing the fee from $50 to $100. Additionally, WOM recognizes that its proposed increase is significant and has proposed a 2-phase plan to address concerns regarding rate shock. WOM has proposed that the first increase becomes effective upon the issuance of the Commission's Decision and Order approving the proposed increased rates and charges and the second phase is to become effective six months after the first phase's effective date.

The test period in the instant rate proceeding is the 12 months ended June 30, 2010.

Q. WHAT ARE YOUR AREAS OF RESPONSIBILITIES IN THIS PROCEEDING?

A. I am basically responsible for discussing all areas related to the Company's request, including, but not limited to: policy; sales, customer count and revenues at present rates; operating expenses, rate base, cost of capital, and rate design.

A. INTRODUCTION TO WOM.

Q. PLEASE PROVIDE A DESCRIPTION OF THE COMPANY.

A. The Commission granted the Company's Certificate of Public Convenience and Necessity ("CPCN") in Decision and Order No. 12125 (filed on January 13, 1993, Docket No. 7122). WOM's service territory is in the Maunaloa, Kualapuu, Kipu, Manawainui, and the Molokai Industrial Park areas on the island of Molokai. The Company asserts that it serves approximately 550 customers[2] and those customers appear to be comprised mainly of residential type of customers. The currently effective rates were the result of the Commission's Order Approving Temporary Rate Relief for Molokai Public Utilities, Inc. and Wai'ola O Moloka'i, Inc. ("WOMI") filed on August 14, 2008, in Docket No. 2008-0115 ("Temporary Rate Order").[3] Otherwise, WOM's has not filed a rate increase application.

WOM is a wholly owned subsidiary of Kaluakoi Water, LLC, which, in turn, is a wholly owned subsidiary of Kaluakoi Land, LLC. Molokai Properties, Limited ("MPL"), a Hawaii corporation, is the parent of Kaluakoi Land, LLC.

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2 See Exhibit WOM 1.

3 The currently effective rates actually reflect temporarily approved rates. Docket No. 2008-0115 was a proceeding designed to address the possibility that customers of MPUI, WOMI and Mosco, Inc. (collectively referred to as the "Molokai Utilities") might be without utility service since the Molokai Utilities indicated that service would be terminated. A more detailed history regarding this matter can be found in the Commission's Temporary Rate Order.

The Company provides its utility water services using plant that is comprised of distribution systems, transmission facilities, reservoirs, and other plant, property and equipment. Water is collected in mountain reservoirs which is blended with water from Well 17[4] and delivered to treatment facilities. WOM also sells water to customers in the Kipu area using water provided by the Department of Hawaiian Homelands.

Of some note is that, as a result of MPL's decision to shutter its operations, the Commission was notified in 2008 that Molokai Public Utilities, Inc. ("MPUI") and WOM were planning to terminate providing utility services to the existing customers. MPL contended that, as a result of significant and continuing operating losses, MPL planned to dispose of the utility assets since there would be no available source of revenues to subsidize the losses incurred from the utility operations. As a result of this notice, the Commission opened Docket No. 2008-0115 on June 16, 2008. As a result of the analysis conducted in that docket, the Commission authorized an increase of 40.95% in revenues for MPUI and an increase of 121.50% increase for WOM.[5]

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4 Well 17 is the name of the well from which WOM's affiliate, MPUI, draws water.

5 No temporary increase was authorized for Mosco since the analysis suggested that Mosco was profitable.

B. THE COMPANY'S REQUESTED RELIEF.

Q. WHAT IS THE COMPANY REQUESTING IN THIS RATE CASE?

A. The Company is proposing to use a split test year ending June 30, 2010 and is requesting a revenue increase of $473,431 or an increase of over 380% above revenues at present rates of $123,660. The Company is requesting that it be allowed to earn a 2.0% cost of capital to calculate its revenue requirements.

Since its total revenues are less than $2,000,000, the Company is seeking rate relief pursuant to the requirements set forth in Hawaii Revised Statutes ("HRS") § 269-16(f) and Hawaii Administrative Rules ("HAR") § 6-61-88, which apply to public utility companies that have annual gross revenues less than $2 million. The Consumer Advocate notes that if the request is approved, this would result in the Company's revenues exceeding the $2 million threshold for the small utility definition, but as determined by the Commission in Order No. 21906 filed on July 1, 2005 in Docket No. 05-0124, it is the public utility company's actual gross revenues, and not its pro forma revenues that determine whether the public utility would be classified as a small utility or not.

Q. WHAT ARE THE FACTORS CONTRIBUTING TO THE COMPANY'S REQUESTED INCREASE IN THIS CASE?

A. Based on the information provided by the Company, it appears that the Company's request is largely caused by significant increases in its operating and maintenance expenses that appear to have been mainly caused by changes in its accounting and allocation procedures. Based on its plant in service schedule, the Company has not made significant investments recently, where its largest investments occurred in 1996 and 1997.

Q. WHAT ARE THE CONSUMER ADVOCATE'S RECOMMENDED ADJUSTMENTS TO THE COMPANY'S OVERALL REVENUE REQUIREMENT AND THE RESULTING REVENUE REQUIREMENTS?

A. Based on the adjustments that are discussed below, the Consumer Advocate recommends that an increase of $346,572 or a 320.7% increase from revenues at present rates should be implemented.

As a result of the adjustment proposed by the Consumer Advocate, the Consumer Advocate is recommending an overall level of revenue requirements of $454,629, which represents a decrease from the Company's proposed amount of 597,091. The basis for this recommendation is supported by the discussion to follow.

C. THE CONSUMER ADVOCATE'S GENERAL ANALYTICAL APPROACH.

Q. COULD YOU PLEASE DISCUSS YOUR GENERAL APPROACH WHEN PERFORMING YOUR ANALYSIS OF THE COMPANY'S REQUEST?

A. Normally, when time and resources permit, the Consumer Advocate performs a fairly thorough detailed analysis of the request by analyzing available data that might support the reasonableness of a utility company's request. The Consumer Advocate will examine all of the revenue requirement elements for prudence and reasonableness using available information, information obtained through discovery and research, and also evaluating assumptions and other factors influencing the test year estimates.

It should be noted, however, that the Consumer Advocate is currently experiencing a very heavy workload affecting all industries and finds that its available resources are also becoming more constrained, which leads to a very unfortunate combination. In other words, due to a very heavy workload, my analysis in this proceeding may not be as thorough as it could be.

Q. DOES THIS MEAN THAT THE RECOMMENDATIONS THAT YOU WILL BE OFFERING ARE NOT REASONABLE?

A. No, that would not be a valid conclusion. The approach that I have taken is generally consistent with the approach taken for small utility companies, where the Consumer Advocate focuses on mainly the "big ticket" items, or the items that are the main drivers causing the need for the increase. Thus, as will be discussed in the sections analyzing the various revenue requirement elements, I will usually identify the major items that were identified as a result of a screening analysis that was used to help limit the work required and the number of issues that might be raised. The results will be reasonable, but due to this screening process, it is likely that there are additional adjustments that could have been identified, but were not due to the lack of Consumer Advocate resources.

Thus, if there is no discussion of a particular item, it can be assumed that the Consumer Advocate is not proposing a recommended adjustment to the Company's estimates; it should not, however, be assumed that the Consumer Advocate accepts the assumptions, method of estimation or even the estimate itself. The Consumer Advocate's silence on any given revenue requirement element is meant to limit the issues in this proceeding as well as relieve the workload that the Consumer Advocate currently faces. The Consumer Advocate reserves the right to question any estimate, method, assumption or other factor if necessary in future proceedings.

Q. IN PAST PROCEEDINGS, THE CONSUMER ADVOCATE HAS PROVIDED A GENERAL OVERVIEW OF THE COMMISSION'S REQUIREMENTS FOR SUPPORTING A REQUEST TO INCREASE RATES AND DISCUSSED THE

GENERAL REGULATORY PRINCIPLES THAT GUIDED THE ANALYSIS.[6] DID YOUR ANALYSIS DIFFER?

A. No. *While the Consumer Advocate's resources are strained, I did not deviate* from the regulatory principles that generally guide the Consumer Advocate's analysis. In the course of the discussion offered below, I will make various references to regulatory tenets such as developing reasonable, normalized estimates of revenue requirement elements and the need to properly consider items that will occur within the test year (as opposed to events or activities that might occur outside of the test year).

Thus, even though the analysis in this proceeding is not as thorough as I would prefer, I have endeavored to offer a reasonable analysis for the Commission's consideration.

II. **<u>SIGNIFICANT MATTERS.</u>**

Q. AS A RESULT OF AN ANNOUNCMENT RELATED TO THE INTENT TO TERMINATE ALL UTILITY SERVICES, THE COMMISSION OPENED DOCKET NO. 2008-0115, WHICH ANALYZED WHETHER TEMPORARY INCREASES FOR MPUI, WOM AND MOSCO WERE NECESSARY AND, IF SO, THE NECESSARY AMOUNT OF THE INCREASE. THE TEMPORARY RATE INCREASES AUTHORIZED BY THE ORDER APPROVING

[6] See, e.g., CA-T-1, pages 23 -35, filed in Docket No. 2007-0180.

TEMPORARY RATE RELIEF FOR MPUI AND WOM ARE STILL IN EFFECT. PLEASE DISCUSS THIS MATTER.

A. The Consumer Advocate does not take lightly the possibility that a utility company might terminate utility services. Thus, as articulated in the Statement of Position filed on June 23, 2008 by the Consumer Advocate, the Consumer Advocate is well aware of the dilemma associated with granting an increase that appears necessary for a utility company to maintain services even though that increase might make rates essentially unaffordable for the utility customers. Thus, the current filing, which actually seeks to increase rates beyond the temporary increase already granted in 2008-0115 raises additional questions and requires the Company to provide more substantive support to not only justify the approved temporary increase, but also the additional amounts being sought by the Company.

It is for this reason that the Consumer Advocate had recommended in its Statement of Position Regarding Completeness of Application that the Commission should require audited financial statements as part of its application to provide a reliable starting point. Given the magnitude of the requested increase and the nature of the increase, there is a concern that the support provided may not adequately justify the requested increase. As will be discussed later in my testimony, there are other items that are in the record to further question the basis for the Company's request.

Another matter that will be discussed in further detail will relate to the various changes in the expenses recorded at the utility level that were purportedly previously recorded by MPL, but should have been recorded by the utility companies.

Q. BESIDES THE ISSUE RELATED TO WOM POSSIBLY TERMINATING SERVICES, ARE THERE ANY OTHER MATTERS THAT BEAR MENTIONING?

A. Yes. An issue that needs to be considered is the possibility that there is excess capacity based on the current design of the system and the existing customer base. Due to the losses of customers, especially the larger customers who used more water and more of the water system, the remaining customers will not require the system, as currently built, to meet the demands of the remaining customers. Allocating the fully embedded cost of service amongst the remaining customers will likely result in a per customer charge that is higher than reasonable. The result is that an excess capacity adjustment might be required. I have already offered a discussion of the two common types of excess capacity in my testimony in Docket No. 2009-0048 so I will not repeat that discussion here, but incorporate that discussion by reference.

In addition, the Consumer Advocate is recommending that a break-even approach, or also to be referred to as the no rate of return ("ROR") approach, be implemented for this rate proceeding. Thus, this will impact the estimated income if the Commission adopts the Consumer Advocate's recommendation and minimize the importance of the rate base if there is no rate of return to be applied to the net rate base. However, there is still the determination of the appropriate depreciation to be used in the instant proceeding. Thus, this issue will be discussed further in the depreciation section of my testimony.

And, while we are discussing potential factors that might affect depreciation, I feel obligated to point out that there might be an issue with the reubuttable presumption that certain parts of the investments proposed to be included within the ratemaking process may have already been recovered through other means. This presumption may be applicable for the Company since it appears that, historically, some of the costs supposedly attributable to the Company were paid for by other affiliated entities and some of those costs might have included capital items and the Company has apparently been operating at a loss for some time. This discussion was also offered in my testimony in Docket No. 2009-0048 and rather than repeat the entire discussion here, I am incorporating that discussion by reference. WOM, just like MPUI, assert that there are no costs that have been knowingly written off, but given the unanswered questions regarding the costs reflected for book, but not tax purposes, I am unwilling to accept such an assertion without more reliable evidence.

Q. AS WILL BE DISCUSSED IN GREATER DETAIL IN THE INCOME TAXES SECTION, YOU ARE RAISING AN ISSUE WITH WHETHER THE CURRENT RATE REQUEST IS ACTUALLY COMPLETE AND REFLECTS RELIABLE INFORMATION. COULD YOU BRIEFLY EXPLAIN YOUR POSITION AND THE POSSIBLE RAMIFICATIONS?

A. Certainly. WOM, just like MPUI, now recommends that all income tax expense and accumulated deferred income taxes ("ADIT") be removed from the test year for rate setting purposes because of an inability to reconcile certain items between its book and tax accounting records. This raises a number of questions that casts doubt on whether any determination in the instant proceeding will produce reasonable results, especially if ADIT balances which should generally reduce the cost of service are eliminated due to a lack of support. As such, I have raised the possibility that the Commission may deem that the instant request should be suspended until the matter can be addressed and/or should be dismissed. If, however, the Commission believes that it is reasonable to proceed, I am still providing testimony and recommended adjustments to certain revenue requirement elements for the Commission's consideration in order to help protect consumers' interests.

I realize that the potential impact on the overall revenue requirements might be nominal, but until the matter is resolved, it is uncertain what the actual impact should be. Furthermore, I realize that the Consumer Advocate filed a statement of position on the completeness of application indicated that the application was complete, but that was before investigation yielded the finding that reliable tax related information and estimates were not provided.

III. REVENUES, SALES AND CUSTOMER COUNT.

Q. AS SET FORTH ON MPU 6 OF ITS AMENDED APPLICATION, MPUI HAS FORECASTED $123,660 OF TOTAL OPERATING REVENUES AT PRESENT RATES. THIS ESTIMATE IS COMPRISED OF $30,860 OF MONTHLY CUSTOMER CHARGES, $92,500 OF WATER USAGE CHARGES, AND $300 OF LATE FEES. WHAT SUPPORT HAS THE COMPANY OFFERED FOR THESE ESTIMATES?

A. The Company has offered various exhibits and workpapers to support its estimated usage and customer counts for the test year. However, the data that has been provided has not always been provided in a clear and easily understood format. Similar to the discussion in my testimony in Docket No. 2009-0048 on this matter, the Company has offered descriptions and/or discussion that confuses the number of customers versus customer bills. Further, while WOM 1 asserts that there are 550 active customers, if one divides the total number of customer bills on WOM 11 by 12, the result is approximately 381.

Q. IS THERE OTHER EVIDENCE THAT THE COMPANY'S FORECASTED REVENUES AND SALES MAY NOT BE REASONABLE?

A. Yes, I believe so. In its response to CA-IR-50, the Company has provided updated data on its customer bills and sales. While the Company has forecasted only 4,580 bills for the test year, the cumulative number of bills at 6/30/2009 is 4,592 or 4,595.[7] This response also reflects that, for the 12 months ended June 30, 2009, the Company recorded 47,351 thousand gallons of sales.

Q. PLEASE IDENTIFY YOUR RECOMMENDED ADJUSTMENTS AND THE BASIS FOR THOSE ADJUSTMENTS.

A. One of the adjustments that I have made is to the forecasted amount of sales. My test year estimate reflects the use of the most recent 12 months' worth of data. I believe that this approach is very conservative since it relies upon actual data and does not attempt to extrapolate, either upwards or downwards for trends that are difficult to support at this time. Due to all of the recent changes and factors affecting customers and their usage in WOM's service territory, relying heavily on historical data and trends may produce somewhat suspect results. I believe further investigation would be useful to verify the reasonableness of using the most recent 12 months as representative of

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7 See page 2 of Attachment CA-IR-50b. Line 12 reflects 4,592 and line 21 reflects 4,595.

normalized levels, but since I am proposing that measures should be taken to minimize the amount of time between WOM filings, I contend that it would be acceptable to use the data from most current 12 months as the basis for this test period. This results in total sales of 40,990 thousand gallons, instead of the Company's 50,000 for water use. This represents a significant decrease, but, reflects the most recent data. If additional data (since the data is only through October 2009) suggests that the test year sales should be higher, I reserve the right to revisit the reasonableness of using the value of 40,990.

For the customer bill count, I am proposing that 4,595 should be used, which is an increase of about 15 bills. This amount is also based on the data from the most recent 12 months. For the same reasons articulated related to water sales, relying on a greater set of historical data may not yield reliable results and, if WOM does not wait six to seven years (or more) between rate filings, relying upon the most recent 12 months of data should be reasonable.

In addition, I note that the actual late fees recorded as of June 30, 2009 was $1,065.[8] The late fees recorded for the four months ended 10/31/2009 was $677. If this amount is annualized, the result is $2,031. This is not unexpected since the current economic conditions might result in a sustained period within which payments may be later than usual. Thus, for purposes of

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[8] Attachment CA-IR-54 (Part A).

the test year, I am recommending that the level of $1,100 be used, which is an increase of $800 over the Company's test year estimate.

The resulting estimated revenues at present rates are $106,597.

IV. EXPENSES.

A. LABOR EXPENSES.

Q. THE COMPANY HAS FORECASTED A TOTAL OF $141,499 FOR THE TEST YEAR. AS PROVIDED IN GREATER DETAIL ON WORKPAPER WOM 10.1, THIS AMOUNT IS RELATED TO THE SALARIES, WAGES, BENEFITS AND PAYROLL TAXES ASSOCIATED WITH 8 EMPLOYEES. DO YOU HAVE ANY COMMENTS ABOUT THIS PROPOSED EXPENSE?

A. Yes. As Illustrated on WOM 10.1, there have been a number of changes that have apparently affected the expense. The total expense recorded for salaries and wages for the years ended June 30, 2004 and 2005 were $63,322 and $69,750, respectively. As explained by Mr. O'Brien, however, the appropriate level should have included expenses that were being recorded as cost of sales. Thus, on WOM 10.1, beginning in the year ended June 30, 2006, the Company has reflected the charges that were classified as cost of sales for comparative purposes. This resulted in the recorded levels increasing significantly for the years ended 2006 through 2009.

I also noticed that even though the recorded expense more than doubled between 2005 and 2006, the total amount decreased somewhat in 2007 and 2008, but the Company contends that a reasonable estimate for the test year should be $141,449, which is about $34,000 higher than the recorded 2008 value.[9]

Q. DO YOU HAVE ANY RECOMMENDED ADJUSTMENTS?

A. Yes. I have a few adjustments to recommend for this expense category. First, the Company has included a wage increase of 3.0% in the test year estimate. I have removed that increase from the forecasted test year amount. Given the current economic conditions, providing an increase in wages for a utility company's employees when its customers are likely to be facing the prospects of receiving pay decreases and/or losing their jobs is unreasonable.

In addition, I am removing the amount of $20,800 associated with the eighth employee, as identified on workpaper WOM 10.1. While the Company has indicated that the position was necessary for maintenance projects, it is not clear what type of projects require another position and it is also unclear whether the Company has clearly discussed and outlined its maintenance program such that the Company has justified the need for another employee. Furthermore, in response to CA-IR-26, the Company has indicated that the position was not filled and it does not intend to fill the position due to the current economic conditions.

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9 The updated data provided in response to CA-IR-47 reflects that the total labor expenses for the 12 months ended 6/30/09 was 127,946.

I also recommend that the level of medical and dental benefits be reduced. It is my understanding that, other than the family portion for dental coverage, the Company is responsible for paying all premiums for the other benefits.[10] *This is a very generous benefits package as most other employers* require employees to contribute varying shares for any benefits. Requiring ratepayers to compensate for virtually all benefits except for the family portion of dental coverage appears excessive compared to other employee benefits plans regardless of economic conditions. For purposes of the test year, I have reduced the expenses by 50%, but admit that there is no substantive basis for this recommended percentage other than as an equal sharing between the Company's owners and its customers for the employee benefits. If the Company's management wishes to cover virtually all benefits with little contribution from the employees, then the Company's management should contribute more to support its decision.

Additionally, I have also reflected adjustments to the payroll taxes associated with the proposed reduction in the salaries and wages.

Finally, I would like to comment that I still have a general concern about the allocation and attribution process that is used to charge expenses to each of the utility companies. This general concern is based, in part, upon the significant changes that are observed when comparing the various recorded

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10 In response to CA-IR-30, WOM referred to the response to CA-IR-35c in Docket No. 2009-0048, which indicated that the Company covers all costs but for the family portion of the dental coverage.

expenses during the periods ended June 30, 2004 through 2009. Additional work may be necessary to obtain a level of confidence related to the charges that are allocated and attributed to the utility companies from MPL. If the Commission is inclined, this might be an area where a management audit and/or time and motion study should be considered. Any such study should be done at the Commission's direction regardless of whether the cost is at the ratepayers' expense. Unless the cost of the study is exorbitant, the benefits of having such a study should improve the confidence in the allocations as well as the possibility that the finding of the study might be that the allocations are inappropriate and the resulting reduction in the allocated expenses might be sufficient to cover the expenses of the study within a few years.

B. FUEL AND POWER EXPENSE.

Q. THE COMPANY HAS PROJECTED $10,656 OF FUEL AND POWER EXPENSE, WHICH IS COMPRISED OF ELECTRIC CHARGES. ARE THE COMPANY'S PROPOSED EXPENSES REASONABLE?

A. Even though the magnitude of this expense item is relatively small, it still requires some scrutiny. I recommend that certain adjustments should be made. Those adjustments are as follows:

- The Company has forecasted its electricity expense by using a "pro forma" estimate of the electricity that will be used. WOMI has not relied on its estimated level of sales and the associated kwh that might be consistent with water sales by evaluating the amount of kwh consumed per unit of water pumped.[11] I recommend that the forecasted electricity consumption should be related to the forecasted sales used for the test year.

- When calculating the water pumped and, hence, the electricity to be consumed, the total lost and unaccounted for water percentage should be limited to 10%, even though the actual experience may be higher. This recommended adjustment factor has been articulated in various cases, including Docket No. 02-0371, which was MPUI's last rate proceeding. For brevity purposes, I will not duplicate the entire discussion offered in Docket No. 02-0371, but incorporate by reference the discussion in that docket and contend that the arguments discussed in Docket No. 02-0371 are applicable in this and any other utility water rate proceeding where the actual lost and unaccounted for water percentage is not measured at or below 10%. Given the need and scarcity of water, it is important that water utility companies strive to reduce waste. Thus, any calculation of projected water to be pumped

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11 Response to CA-IR-37.

should use, at a maximum, a 10% factor between the amount sold and the water pumped.[12]

- *The Company has requested the ability to implement automatic* adjustment surcharges for its electricity expenses. As will be explained in further detail in the rate design section, I am recommending that the Commission disallow or not authorize a surcharge. If this recommendation is adopted, it will emphasize the need to use a reasonable starting point for the unit cost for the electricity expense.[13] Thus, I am recommending that more updated unit values be used for the purposes of the test year electricity expenses.

The adjustments associated with these recommendations are reflected on the CA-113 and results in a total of $7,391, which represents a decrease of about $3,000.

C. COST OF SALES.

Q. WOM DOES NOT HAVE A SINGLE SOURCE OF WATER, SUCH AS MPUI'S WELL 17. IT INCURS CHARGES FROM OTHER SOURCES, SUCH AS THE

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12 As discussed in Docket No. 02-0371, it may be possible that a company such as WOM might characterize certain water losses as "lost and unaccounted for" and other water losses as being associated with water treatment losses or other differences characterized other than lost and unaccounted for. The Consumer Advocate contends, however, that the combined losses should be set at a total of 10%.

13 If the automatic adjustment surcharges are approved, the need to select reasonable unit values for the electricity expense is reduced since any difference between the unit value used in setting base rates and the actual cost will be either returned to or recovered from ratepayers.

ONE RECEIVED FROM MPUI FOR WATER FROM WELL 17 AND FROM THE DEPARTMENT OF HAWAIIAN HOMELANDS. DO YOU HAVE ANY COMMENTS ON THE COMPANY'S ESTIMATE OF $106,026 FOR THIS LINE ITEM?

A. Yes. I do not believe that the Company's method of estimating the test year expense is reasonable as it relates to the forecasted expenses from DHHL and the water at Waiola at Puunana. As explained in the responses to CA-IR-36 and 37, the Company developed its forecast by applying a 3% factor for inflation to the 2008 expense level. This factor was applied twice - once for 2009 and again to derive the 2010 estimate. I contend that the test year estimate should not reflect any charges that are known and reasonable, such as forecasted increases in prices when there is no agreement that specifically reflects the necessity to apply an inflation factor. WOM's response to CA-IR-13 provides the agreement between WOM and the DHHL and there is no provision for any type of escalator. WOM's response to CA-IR-37 indicates that there is no agreement that governs the arrangement where WOM receives water.

Furthermore, when the Company is proposing that its sales will be decreasing in the test year, to apply an inflation factor without reflecting the anticipated decrease in usage is not consistent with the Company's arguments to decrease its test sales. In fact, in attempting to analyze this line item, I conducted various ratio analyses. One such analysis highlights that the cost per thousand gallons for the water acquired from DHHL approximates $0.00385 while the contract term specifies a rate of $0.41 per thousand gallons. *Thus, the Company's attempt to suggest that the rates should be* increased by some assumed 3.0% inflation factor, which has not been supported, should not be adopted.

I recommend that the use of the 3.0 inflation factor should not be allowed to develop the test year estimate and that the test year estimate should include some sort of recognition for the anticipated decrease in sales.

Q. THE COMPANY'S RESPONSE TO CA-IR-47 PROVIDED UPDATED DATA INCLUDING RECORDED RESULTS FOR 2009. THIS DATA SUGGESTS THAT THE COMPANY INCURRED OVER $500,000 FOR THE COST OF SALES, WHICH REPRESENTS MORE THAN THREE TIMES THE HISTROICAL AVERAGE FOR THIS LINE ITEM. FURTHERMORE, THE ANNUALIZED RESULTS FOR THE FOUR MONTHS ENDED 10/09 WOULD ALSO BE OVER $500,000. DO YOU THINK IT IS REASONBLE TO RECOMMEND A DECREASE IN THIS LINE ITEM?

A. No, not at this time. The causes for the significant increase require further investigation and I reserve the right to recommend further adjustment if necessary. Rather than speculate what might be causing this increase, however, this observed increase, if it reflects an ongoing event, strongly suggests that WOM should consider alternative means by which to meet its customer demands. If the cost of sales expense is prone to increasing by over three times within a single year, this is not a burden that the Company appears to be able to bear and certainly does not reflect an increase that customers should be expected to bear either.

If further investigation does not yield results that suggest that the experience in 2009 is an exception, the Company should be required to submit a report to the Commission on what type of alternatives are feasible and present more reasonable and reliable source or sources of water.

D. MATERIALS AND SUPPLIES.

Q. IN DOCKET NO. 2009-0048, YOU RECOMMENDED AN ADJUSTMENT TO MPUI'S FORECASTED MATERIALS AND SUPPLIES EXPENSE. DO YOU RECOMMEND A SIMILAR ADJUSTMENT TO WOM'S TEST YEAR ESTIMATE OF MATERIALS AND SUPPLIES?

A. No. Whereas MPUI's recorded materials and supplies expense increased significantly due to direct charges recorded by MPL apparently beginning in 2006, that same observation is not made for WOM, other than the fuel for vehicles expense. While I am concerned with the apparent assertion that, for a company as small as WOM incurring over $10,000 of fuel expenses for vehicles and whether such charges can justifiably be attributable to all utility expenses, I am not recommending the removal of the MPL direct charges.

E. AFFILIATED CHARGES.

Q. THE COMPANY HAS FORECASTED THAT $18,000 IS A REASONABLE ESTIMATE FOR WOM'S AFFILIATED CHARGES, WHICH, ACCORDING TO THE RESPONSE TO CA-IR-40, IS SUPPOSED TO REPRESENT "ALL NECESSARY ACCOUNTING FUNCTIONS INCLUDING PAYMENT OF ALL BILLS FOR THE UTILITIES AND [PREPARATION] OF MONTHLY FINANCIAL STATEMENTS." DO YOU BELIEVE THAT THIS IS A REASONABLE ESTIMATE?

A. No. For a company of this size, the forecasted estimate appears to be greater than necessary. In its response to CA-IR-40, the Company provides the administrative charges that are incurred on behalf of WOM, MPUI, and Mosco. As can be seen, Mosco has the smallest amount of charges, and WOM has the greatest and thee is somewhat of a disparity where WOM purportedly receives almost five times as much Mosco and twice as much as MPUI. It is not clear why this is the case.

I asked whether MPUI and WOM had employed a bid process to determine whether an outside vendor might be able to perform the services more efficiently and for less expense. The response was that no such process was employed and that it would be too small for any external sources. I do not agree with this assessment as there are third party vendors who perform bookkeeping services for small companies in Hawaii. I am not personally aware of whether such vendors exist on Molokai or whether there might be some vendors on Maui that are capable of meeting WOM's needs. However, the proposed test year estimate appears excessive in comparison to the charges allocated to MPUI and Mosco. This is another example of how it *might be useful to have a management audit and/or time and motion study* performed to determine whether there might be time and expense that can be reduced for all three of the utility companies and whether labor and non-labor charges are being attributed and allocated appropriately.

Q. DO YOU HAVE A RECOMMENDED ADJUSTMENT?

A. Yes. I recommend that the Commission should allow no more than the level forecasted for MPUI. Thus, I have calculated a disallowed amount of about $8,000 to reduce the Company's forecast of $18,000 to $9,660.

F. PROFESSIONAL AND OUTSIDE SERVICES.

Q. DO YOU HAVE ANY RECOMMENDED ADJUSTMENTS FOR THIS LINE ITEM?

A. Yes, I do. The Company has used a five year average of the total expenses incurred during the period 2004 – 2008. As can be seen on WOM 10.7, there are two years with expenses that are much greater than all other years. In 2008, the Company incurred $8,800 for expenses related to licensing requirements. In addition, the Company incurred $2,213 for expenses related to water from the County of Maui. In response to CA-SIR-6, the Company could not provide the specific cycle over which these expenses are incurred. Thus, using a five year cycle may result in collecting too much from ratepayers. Since neither of these charges seem to occur other than in 2008, I am concerned that using only a five year period to normalize the expense may overstate the test year estimate.

That being said, I am not proposing an adjustment since I do not have any data that would provide any insight into the appropriate period over which to normalize the estimates. I am, however, proposing to remove the charges incurred related to acquiring water from the County of Maui when water was not available from Well 17. Since I am reflecting the full amount of water expected to be obtained from Well 17 in the determination of cost of sales, including any amount for the contingency of needing water from the County of Maui would essentially be double-counting the expense needed to serve the customers and would be inappropriate. The adjustment is reflected on CA-118.

G. REPAIRS AND MAINTENANCE.

Q. THE COMPANY HAS FORECASTED THE ESTIMATE OF $17,088 FOR REPAIRS AND MAINTENCE. DO YOU HAVE ANY COMMENTS AND RECOMMENDED ADJUSTMENTS?

A. Yes. First, while the Company has generally used averages to determine its test year estimates. I note that for the expenses related to "plant," the

Company simply uses the 2008 activity level of $10,160. In addition, as detailed in the supplemental response to CA-IR-42, the expenses incurred in 2008 was primarily higher due to an apparent pump and motor repair and the expenses under $300 recorded at $4,022. In 2007, the total for this category was only $880. The increase in low cost items was not explained. Thus, I am removing this amount from the calculation of the test year amount. I note that the resulting estimate is consistent with the amount of expenses incurred by the Company since it changed its cost accounting procedures. Further, it should be noted the activity for this expense item for the year ended 6/30/2009 was $11,663, which suggests that the activity in 2008 was aberrational.

H. REGULATORY EXPENSES.

Q. THE COMPANY HAS INCLUDED $55,000 OF REGULATORY EXPENSES. THIS AMOUNT IS BASED ON A THREE-YEAR AMORTIZATION PERIOD AND, THUS, REFLECTS AN ESTIMATED TOTAL OF $165,000 OF RATE CASE EXPENSES FOR THE INSTANT PROCEEDING. DO YOU HAVE ANY COMMENTS ON THIS ESTIMATE?

A. Yes. As it relates to the proposed amortization period, I do not have any recommended adjustments. I believe that it is probable that WOM will seek to file another rate application sooner, rather than later, especially if the Commission adopts most of the recommendations offered by the Consumer

Advocate, such as not allowing a ROR. Thus, using a three-year amortization period appears to be a reasonable value for the instant proceeding.

As it relates to the estimated costs to be incurred by WOM, the Company's supplemental response to CA-IR-44a appears to suggest that WOM may seek to increase the total estimate associated with regulatory expenses. As of the date of the response to CA-IR-44a, WOM appears to have incurred almost $74,000[14] for the preparation and filing phase, as compared to the budget of $62,000. In addition, while the discovery and settlement phase is not yet complete, the Company has indicated that it has already incurred over $100,000, while it had budgeted only $63,000 for that phase.[15] The Company has also estimated that work on rebuttal will approximate $35,000 and the hearing phase is now estimated at about $64,000, whereas the hearings and briefing phase was originally estimated at $40,000.

I am concerned with these additional costs as the most current estimates suggest that the total regulatory expense will approach $280,000,[16] if not more. For a company the size of WOM, this level of expense is

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14 The "actual" charges for the preparation and filing phase are comprised of about $37,000 for regulatory charges, assumedly Mr. O'Brien's charges, and about $36,700 for legal charges.

15 This is comprised of $14,302 for regulatory and $46,320 for legal charges incurred through October 31, 2009. There are also about $45,000 more of estimated charges to complete just the discovery phase.

16 See page 1 of the Supplemental Attachment CA-IR-44a.

significant. Even if amortized over a three year basis, the resulting amortization amount will represent one of the largest expense line items for the Company.

Q. DO YOU HAVE ANY RECOMMENDED ADJUSTMENTS TO THE COMPANY'S ESTIMATE?

A. No. Normally, the Consumer Advocate recommends that the costs associated with the hearing phase should be disallowed since there has been a long history of the Consumer Advocate working with small utility companies to develop stipulated settlement agreements to reduce the overall costs that might be incurred, while still producing reasonable results in the interests of both the customers and the utility company. In this instance, however, as noted earlier, given the Company's earlier indications that it was going to terminate services and the intervention by other parties, the likelihood of a settlement and no evidentiary hearing is decreased. As such, I am not recommending an adjustment at this time. If, however, a settlement can be reached, I assume that the Company will be receptive to discussing the need to modify the estimate associated with regulatory expenses.

I. INCOME TAXES, TAXES OTHER THAN INCOME TAXES AND OTHER RELATED MATTERS.

Q. THE COMPANY'S RESPONSE TO CA-IR-23 INDICATES THAT THE COMPANY IS PROPOSING TO REMOVE ALL INCOME TAX ELEMENTS FROM THE INSTANT RATE PROCEEDING. DOES THIS CONCERN YOU?

A. Yes, for a number of reasons. First, as a brief summary, the Consumer Advocate noted a number of apparent discrepancies between the values offered by the Company as its tax and book amounts for various plant items. When asked to reconcile and explain the various differences, the Company's response indicated that it could not reconcile the differences and recommended that all income tax elements be removed from the rate proceeding.[17]

This admission raises a question about the accuracy and reliability of the number associated with the numbers in question. The Consumer Advocate contends that it is the utility company's responsibility to verify the accuracy and maintain the reliability of both book and tax records. The Company also asserts that its proposal to remove all income tax elements is reasonable since there have been times that there was no provision for income taxes in the determination of rates in other proceedings.[18]

17 WOM's Attachment to CA-IR-23b.

18 Response to CA-SIR-24.

Q. DOES THE PROPOSAL TO REMOVE ALL INCOME TAX ELEMENTS REPRESENT A REASONABLE REGULATORY APPROACH?

A. No. I do not believe so. It might be argued that removing the projected income tax expense, which was only $6,486 on WOM 7, is reasonable since, if the Company is not allowed or able to earn any income, there would be no income tax expense as the Company appears to be asserting in its response to CA-SIR-24. It might be further argued that no deferred income tax expense *is appropriate since if there is reasonable doubt about the Company's ability to* earn income, deferred income taxes may not be realizable.[19]

While the Company's argument might appear reasonable at face value, the argument should not be deemed reasonable for the following reason. It has been argued by utility companies in the past that net operating losses, or NOLs, are the utility company's assets, since the utility company suffered losses rather than seeking to increase rates to generate sufficient income to cause income taxes to be payable. Thus, the utility company and/or the utility company's affiliates were required to invest further funds in the utility to offset the difference between operating revenues and expenses.

I contend that ratepayers are being short-changed. That is, if the utility company's argument is accepted, the utility company will be allowed to collect revenues for estimated income taxes through rates, but will not be required to

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19 Id.

pay any income taxes because of NOLs. Even if income taxes are paid because the NOLs were used by an affiliated company, this does not seem fair to ratepayers either since rates are generally set on a stand-alone basis. If the NOLs are used by an affiliate instead of being retained for the utility company and its customers, this is not reasonable. This condition is further exacerbated by the possibility that customers may not be able to receive the long-term benefits associated with accumulated deferred income taxes and the Hawaii State Capital Goods Excise Tax Credits because of management's decision to not seek an appropriate rate structure to allow such benefits to be realized. These tax related items usually result in the reduction of rate base, but when a utility company does not have taxable income, a utility company on a stand alone basis will most likely not be able to realize accelerated depreciation tax benefits, which generate the accumulated deferred income taxes, and may not be able to claim the excise tax credits. Thus, if or when rates are set to allow a utility company to earn profits and incur income taxes, the Company's proposal will result in ratepayers having to pay income tax expense, but not enjoy the benefits of credits that should have been claimed in the past to reduce the estimated rate base.

Q. WHAT IS YOUR RECOMMENDATION?

A. As one consideration, the Commission could consider requiring the Company to address this matter before proceeding with the determination of revenue requirements. While the potential impact of the income tax expense will be small or negligible, especially if the Commission adopts the recommendation that a break-even approach (i.e., no income) be used for this proceeding, the impact of the ADIT and the HSCGETC cannot be reliably quantified due to the lack of reliable evidence. These rate base items might also be nominal, but the principle of the matter should be addressed. Thus, this proceeding would either need to be suspended until the matter is resolved or the instant application could be dismissed and a new application can be filed once the appropriate values have been determined and can be supported.

In the alternative, I contend that if the Commission is willing to move forward with the current application, the Commission should require the Company to provide the best estimates of the ADIT and HSCGETC that should be calculated as if the Company had properly recorded and taken these tax benefits.

V. <u>RATE BASE.</u>

Q. YOU MENTION THAT YOU ARE RECOMMENDING THAT THE COMMISSION SHOULD USE A BREAK EVEN APPROACH IN THE INSTANT PROCEEDING. IF THE COMMISSION DOES NOT ALLOW ANY RATE OF RETURN, IS A DETAILED REVIEW OF RATE BASE REQUIRED?

A. While a break even approach means that a utility company will not earn a return on its investment, it is still necessary to evaluate the proper level of rate base since it is likely that the Commission approved level of rate base will be used as the basis upon which rate base for the Company's next rate proceeding will be calculated.

Q. YOU HAVE ALREADY MENTIONED THAT THE COMMISSION SHOULD CONSIDER REQUIRING WOM TO FILE EITHER A CORRECTED APPLICATION OR A NEW APPLICATION WITH CORRECTED NUMBERS TO ADDRESS THE ADIT AND HSCGETC BALANCES. IF, HOWEVER, THE COMMISSION ALLOWS THE CURRENT APPLICATION TO MOVE FORWARD, WHAT IS YOUR RECOMMENDATION FOR RATE BASE?

A. There are three general issues in this proceeding that should be considered when determining rate base:

- What amounts, if any, should be disallowed due to facts or circumstances that suggest that the cost of a plant item might have already been recovered through some other means;
- What amount of plant might represent excess capacity that is greater than necessary to meet the demand of the existing customer base; and
- What is the appropriate amount of ADIT and HSCGETC that should be imputed to recognize the tax benefits that should have been taken?

Q. PLEASE DISCUSS THE REBUTTABLE PRESUMPTION.

A. This is an issue that has been raised before the Commission in the past. The presumption is that the value of certain plant items might have been recovered through some other means, so it would be inappropriate to include those costs when setting rates for the utility company. Generally, the presumption is applied at the time of CPCN application, because once Commission approved rates are implemented, the likelihood of a company charging less than appropriate rates should be minimized. In this instance, I contend that the presumption exists because the Company asserts that it has been suffering significant losses for some time and has various assets which are on its book accounting records, but do not appear on the tax accounting records. This is illustrated by the reconciliation that is provided in response to CA-IR-23. Attachment CA-IR-23 shows that there is a $313,205 difference between book and tax records.

I recommend that the amounts associated with the plant items that are depreciated for book purposes, but not tax purposes should be disallowed and the depreciation expense associated with these items should also be excluded from the test year.

Q. YOU HAVE ALSO ASSERTED THAT THE COMMISSION SHOULD CONSIDER THE REASONABLENESS OR NEED FOR AN EXCESS CAPACITY ADJUSTMENT. ARE YOU RECOMMENDING THAT THE

COMMISSION SHOULD MAKE THAT ADJUSTMENT, AND, IF SO, WHAT IS THAT ADJUSTMENT?

A. While I believe that an excess capacity adjustment is appropriate, I also believe that further analysis is required. I do not believe that I have sufficient information to offer an estimate that is well supported. Due to the many changes that have affected the Company, its affiliates, and its customers, additional information is necessary. Thus, I reserve the right to revisit this issue dependent upon whether additional information might be available to facilitate the development of an excess capacity factor. Any such excess capacity adjustment would be affected the amount of plant that might be disallowed for other reasons, such as the rebuttable presumption that the costs have already been recovered through some other means.

Q. YOU CONTEND THAT IT IS NECESSARY TO IMPUTE ADIT AND HSCGETC WHEN DETERMINING THE TEST YEAR RATE BASE. HOW WOULD YOU CALCULATE THESE AMOUNTS?

A. I do not believe that it reasonably possible with any degree of certainty at this time. The issues associated with the appropriate plant items must be first resolved before the appropriate adjustments can be made with the ADIT and HSCGETC. And, it appears that insufficient information exists to complete an independent analysis.

But, for purposes of a placeholder, I have tried to estimate ADIT using the available information. I have removed the book depreciation associated *with the items that are identified on* Attachment CA-IR-23a *as being reflected* "On book not on tax" from the calculation of ADIT. The result is that there are ADIT balances of $7,932 and ($984) for the years ended 6/30/09 and 6/30/10, respectively, which reduce the rate base.[20]

And for HSCGETC, I have added an appropriate amount of credit for the plant in service items that have not been disallowed. In its response to CA-IR-24, the Company indicated that no additions were made in 2009, but that it would update its response after it had completed its review. In its supplemental response, the exact answer was repeated. Thus, I have assumed that the plant addition of $20,000 for meter reading should be removed. Furthermore, while the Company has contended that no HSCGETC should be calculated, I have made an adjustment to estimate the credits that should have been calculated since 1995.[21]

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20 Due to the effective income tax rate changing depending on the results of operation, this value may need to be further adjusted notwithstanding the remaining issue about the reliability of the underlying information.

21 I have used 1995 as the furthest year back since the Company is using a 15 year amortization period. Thus, the credits associated with any plant added before 1995 should be expired for the test year period.

Q. DID YOU MAKE ANY OTHER ADJUSTMENTS TO RATE BASE?

A. The Company had originally contended that they would be purchasing new vehicles in 2009. However, in response to CA-IR-43, the Company acknowledged that it has changed its plans and will not be buying the vehicles as originally proposed. Thus, I am removing the amount related to vehicles and the associated impact on depreciation and HCGETC.

Q. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING ANY OF THE COMPANY'S RATE BASE ITEMS?

A. Yes. Like in other areas, there are questions regarding the Company's records. For instance, when asked about what the reservoir improvements were as identified on WOM 9.2, lines 3 through 6, the Company, in its response to CA-IR-20, indicated that it did not have readily available documents that would provide specific details. Other items also resulted in responses that were not always helpful.

The lack of readily available details raises concerns, especially for any company that has shared resources. The need for sufficient detail to justify the amount to be included in rates is integral to the review process. For instance, given the possibility that MPL, Molokai Ranch or any other affiliate might also use the reservoir improvements in question or any other asset is something that could and should be reviewed. In those instances, there should be an allocation of the asset and the depreciation among the entities that use the facilities. In this instance, however, such an analysis would not be possible.

Another item for which the Company did not have readily available documents is the support for the estimated useful life. I believe that there are certain items on WOM 9.4 that require greater scrutiny. One set of items relates to the reservoirs and reservoir improvements. As set forth on WOM 9.4, there are different useful lives for various reservoir and reservoir improvements on this schedule. When asked to provide the basis for the estimated useful service lives, the Company indicated that there is no data to support it, but "believes that a 25 year life is reasonable. An alternative would be to increase the service life to 30 years to match the useful life of the reservoir installed in 1987."[22] Thus, I recommend that all of the items that are depreciable (i.e., not disallowed for various reasons or already fully depreciated) should be depreciated with the same useful lives unless the Company can justify otherwise. I am aware that certain items, depending on its nature may have a different depreciable life or the Company may have attempted to match an improvement's useful service life over the estimated remaining life of the original asset. Until, however, evidence can be provided to suggest otherwise, I contend that the Company has not justified why

[22] Response to CA-IR-20b.

different lives should be used and, thus, the Commission should use the same useful life for items that appear to be similar in nature.

VI. RATE OF RETURN.

Q. AS GENERALLY DISCUSSED ON PAGES 31 THROUGH 33 OF WOM-T-100, WOM IS SEEKING COMMISSION APPROVAL OF A 2.0 PERCENT RATE OF RETURN ("ROR") EVEN THOUGH THE COMPANY BELIEVES THAT IT IS ENTITLED TO AN 8.5 PERCENT ROR. DO YOU BELIEVE THAT THIS IS REASONABLE?

A. No. First, as discussed in the section related to income taxes, the Company is proposing to remove all income tax elements, including ADIT, which is generally an item that represents a deduction to rate base. Since the ROR is applied to rate base, if the rate base is higher than appropriate, the calculated income will be higher than appropriate, regardless of what ROR value might be applied. Until the matter surrounding the appropriate values for ADIT can be resolved, allowing any level of ROR in the instant proceeding would not be reasonable.

Another factor that should be considered is the requested increase. The Company is seeking to increase rates by almost 400% for most rate classes. While a 2.00% ROR might seem somewhat nominal, as calculated by the Company on WOM 6, this 2.00% rate of return, if no other ratemaking elements are adjusted, results in almost $28,000 of income, which using the

Company's gross revenue conversion factor translates into about $47,500 of additional revenues. In these current economic conditions and considering the magnitude of the proposed increase as well as some of the other issues relating to the Company's estimates, the Commission should only consider a breakeven level.

In addition, the Consumer Advocate has concerns with the proposal that is articulated in Mr. O'Brien's testimony, where he proposes that any *changes in the Company's estimated revenues, expenses, or rate base that* would affect the calculated ROR, should basically be offset by an increase in the allowed ROR. This would essentially make moot all efforts to conduct meaningful analysis on other ratemaking elements. While there is some general acknowledgement and appreciation that the Company did not seek an ROR of 8.50%, there is no support for the 2.00% or the 8.50% and suggesting that any adjustments in other areas be offset by increasing the ROR up to 8.50% is troubling.

VII. RATE DESIGN.

Q. WITH YOUR PROPOSED REVENUE REQUIREMENTS, DO YOU HAVE ANY COMMENTS ON RATE DESIGN?

A. Yes. The Company has proposed that all customer classes should equally receive its proposed increase in rates. For purposes of this rate proceeding, I believe that an "across-the-board" allocation of any rate change is the only logical course of action at this time. To explain, I contend that in order to effectuate an alternate rate design would not be practical in the instant proceeding. In past cases, the Consumer Advocate has analyzed the various types of expenses and investments for purposes of rate design, but given the many questions that exist regarding the various revenue requirement elements of the Company, attempting to functionalize the expenses and rate base elements would not be productive at this time.

This is not to say, however, that it would not be reasonable to conduct a cost of service study ("COSS") at some point. The purpose of the COSS would be to determine whether, given all of the changes that have occurred with the Company's service territory, the current rate design remains a reasonable means by which for the Company to recover its costs of service.

Q. THE COMPANY PROPOSES TO IMPLEMENT THE PROPOSED RATE INCREASE IN TWO SEPARATE PHASES. DO YOU AGREE WITH THIS PROPOSAL?

A. Yes. In general, whenever a utility company proposes an increase that might exceed 25%, the Consumer Advocate will recommend that the Commission consider implementing that increase through phased increases. That is, the overall increase should occur over two or more separate increases to minimize rate shock. Generally, rate shock refers to the possibility that a utility company's customers might not be able to accommodate a significant increase in utility rates without difficulty. Thus, depending on the outcome of revenue requirements, if the overall increase exceeds 25%, the Commission should normally consider the need for a phase-in plan. In this particular instance, however, since the overall increase should be determined by comparing the approved revenue requirements to the last Commission approved rates (i.e., as approved in the Company's CPCN docket), and not the temporary rates approved in Docket No. 2008-0115, the overall increase will *easily exceed 25%. In fact, even if the Commission adopts all of my* recommended adjustments, it appears that the rate increase will be over 300%. Even if this level of increase is phased in over two steps, the increase is still likely to cause rate shock. Thus, it might be reasonable to consider whether additional phases could be introduced to help inure customers to the likely rate increases while still balancing the need for the Company to recover a reasonable level of revenues. While I am stating that additional phases might be required, I am mindful of the Company's need to stay solvent since it would not be in the public interest if the Company terminated its services due to an inability to cover its expenses. At a minimum, however, I contend that it would be easier for customers to absorb the likely increase over a 12 month phase-in plan, where the first increase occurs effective with the Commission's interim or final order and the second phase occurs 12 months after the first increase.

The result of this proposal is reflected on CA-125. CA-125 shows the proposed rates allocated on an across-the-board basis with a two step phase-in plan. There is a difference between the amount of the calculated revenue requirements and the resulting revenues derived from the phase-in rate plan. This is caused by rounding differences. Rather than trying to eliminate the rounding difference, I am receptive to discussion with the Company and the other parties if efforts are made to reach settlement.

Q. PLEASE COMMENT ON THE COMPANY'S REQUEST TO IMPLEMENT AUTOMATIC ADJUSTMENT CLAUSES FOR FUEL AND ELECTRICITY.

A. I do not recommend that the Commission approve the Company's request for an automatic adjustment clause. As has been discussed in various small utility company rate applications recently, the Consumer Advocate is concerned with the small utility companies that have implemented automatic clauses. Automatic adjustment clauses should be reserved for certain revenue requirement elements that generally represent significant expenses that are not within the control of the utility company. The Company's own projection for electricity expense does not represent a significant proportion of its test year expenses. In addition, the Consumer Advocate is concerned that these automatic adjustment clauses have not been necessarily implemented appropriately by the small utility companies with the appropriate filings with the Commission to justify the levels that are being charged and to ensure that the clauses are being applied appropriately. In addition, these clauses might allow the small utility companies to avoid making rate filings on a more regular basis, which can lead to situations where a utility company may wait seven years or more and then seek a rate increase that might be 50% or more. I believe that this serves neither the companies' nor the customers' needs or best interests. In addition, given all of the stated uncertainty regarding various test year estimates and the changes that have been ongoing in the Company's service territory, I contend that the Company should plan on making another rate application filing within three to four years. This should give an opportunity to collect data, perform the necessary studies, investigate and implement the appropriate infrastructure improvements, and submit an application that will hopefully be less controversial.

Q. DO YOU OPPOSE THE PROPOSED INCREASE IN THE RECONNECTION FEE?

A. No.

Q. DO YOU HAVE ANY OTHER COMMENTS ON RATE DESIGN?

A. Yes. I note that the Company has established rates for agriculture tap-in-charges that differ from other customers. There is, however, no corresponding agricultural preferred rate to go along with these separate agricultural tap-in-charges. Assuming that the Company receives a bona fide request, it will need to come in for Commission approval of such preferred agricultural rates.

In addition, the Company only has a single flat rate for all of its customers. The Consumer Advocate asked a number of questions to help analyze the issue of whether tiered rates might be established to accomplish various goals, such as attempting to encourage conservation and to better allocate costs among the users. It is the Company's assertions, however, that water conservation is not a significant issue in its service territory. Further, the Company contends that, while it has considered tiered rates and proposed such rates for MPU, WOM's sister company, WOM contends that it is not necessary in its service territory.

I recommend that the Commission require to keep the appropriate records to allow such rates to be established in a future rate proceeding. As already mentioned, given the changes that have been occurring and the lack of reliable data, attempting any significant effort to re-design rates might yield results that are flawed. If, however, the Company is required to keep and maintain the necessary records and data to support any future effort, the ability for the Company, Commission, or any other interested party to support the efforts will be facilitated.

VIII. <u>CONCLUSION</u>.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. It does.

DEAN NISHINA

Educational Background and Experience

Business Address:	335 Merchant Street Honolulu, Hawaii 96813
Position:	Executive Director
Years of Service:	Since October 1992
Business Affiliations:	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs, State of Hawaii 1989 - 1992 -- Arthur Andersen & Co., Utilities, Telecommunications, Transportation, and Government Division, Chicago, Illinois
University or College:	Northwestern University, Evanston, Illinois DePaul University, Chicago, Illinois
Degree:	Bachelor of Arts in Economics and Psychology and Certificate of Asian Studies Master of Science in Accountancy
Certification:	1993 -- Certified Public Accountant
Regulatory Experience:	People's Gas, Light & Coke Co. Chicago, Illinois 1992 rate case.
Other Curriculum:	Certificate - Center for Public Utilities NARUC - Regulation and Rate Making Process, New Mexico State University, 1993 and 1999.
Previously Testified:	I have testified and/or participated in all utilities and transportation areas regulated by the Commission.

Waiola O Molokai
Revenue Requirements & Rate of Return Summary
Test Year Ending June 30, 2010

Line #		Present Rates	Additional Amount	Proposed Rates at 0.00%
1	Monthly Customer Charge	$31,125	$99,624	$130,749
2	Water Usage Charges	75,832	246,948	322,780
3	Other	0		0
4	Connection Fees	0		0
5	Late Fees	1,100		1,100
6				
7	Total Operating Revenues	108,057	346,572	454,629
8	Labor, PR Taxes & Employee Benefits	101,242		101,242
9	Fuel & Power	7,391		7,391
10	Cost of Sales	95,680		95,680
11	Treatment Charges & Chemicals	0		0
12	Materials & Supplies	13,581		13,581
13				
14	Affiliated Charges	9,660		9,660
15	Professional & Outside Services	3,156		3,156
16	Repairs & Maintenance ("R & M")	10,519		10,519
17	Rents	0		0
18	Insurance	16,000		16,000
19	Regulatory Expense	55,000		55,000
20	General & Administrative	5,885		5,885
21				
22				
23	Total O&M Expenses	318,113	0	318,113
24	Taxes, Other Than Income	6,899	22,129	29,028
25	Depreciation	107,490		107,490
26				
27	Income Taxes	0	0	0
28	Diff. due to changing factors			0
29	Total Operating Expenses	432,503	22,129	454,631
30	Operating Income	($324,446)	$324,443	($2)
31	Average Rate Base	$1,249,647		$1,249,647
32	Return on Rate Base	-25.96%		0.00%
33	Target ROR	0.00%		
34	Increase in ROR	-25.96%		
35	Increase in NOI	324,446		
36	GRCF	1.06820		
37	Increase in Revenues	$346,573	$1	
38	Percent Increase in Revenue		320.73%	

Waiola O Molokai
Income Tax Expense
Test Year Ending June 30, 2010

Line #	Description	[1] Tax Rates	[2] Taxable Amounts Present Rates	[3] Taxable Amounts Revenue Increase	[4] Taxable Amounts Proposed Rates	[5] Income Taxes Present Rates	[6] Income Taxes Revenue Increase	[7] Income Taxes Proposed Rates	[8] Difference in Income Tax Calculations [4]+[5]-[6]
1	Total Revenues					108,057	346,572	454,629	
2	Total Operations & Maintenance Expenses					318,113	0	318,113	
3	Depreciation					107,490	0	107,490	
4	0					0	0	0	
5	*Taxes Other than Income Taxes*					*6,899*	*22,129*	*29,028*	
6	Total Operating Expenses					432,503	22,129	454,631	
7	Operating Income before Income Taxes					(324,446)	324,443	(2)	
8	Interest Expenses					0	0	0	
9	State taxable Income					(324,446)	324,443	(2)	
	Less:								
	State Income Tax								
10	less than $25K	4.4%	(25,000)	25,000	25,000	0	1,100	0	
11	Over $25K, but less than $100K	5.4%	(75,000)	75,000	(25,002)	0	4,050		
12	Over $100K	6.4%	(224,446)	224,443		0	14,364	0	
13	State Income Taxes					0	19,514	0	19,514
14	Federal taxable income					(324,446)	304,929	(2)	
	Federal income tax								
15	less than $50K	15.0%	(50,000)	50,000	(2)	0	7,500	0	
16	Over $50K, but less than $75K	25.0%	(25,000)	25,000		0	6,250	0	
17	Over $75K, but less than $100K	34.0%	(25,000)	25,000		0	8,500	0	
18	Over $100K, but less than $335K	39.0%	(224,446)	235,000		0	91,650	0	
19	Over $335K	34.0%		(30,071)			(10,224)		
20	Federal Income Taxes					0	103,676	0	103,676
21	Total Federal and State income taxes					$0	$123,190	$0	$123,190
22	**Effective Tax Rate**					0.0000%	37.9697%	0.0000%	
23	State					0.000%	6.015%	0.0000%	
24	Federal					0.000%	31.955%	0.0000%	

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Waiola O Molokai
Taxes Other Than Income Taxes
Test Year Ending June 30, 2010

Line #	Description	[1] Revenues at Present Rates	[2] Revenues at Proposed Rates	[3] Tax Rates	[4] Taxes at Present Rates	[5] Taxes at Proposed Rates
	Revenue Taxes					
1	Public Company Service Tax (Pursuant to HRS § 239)	$108,057	$454,629	5.885%	$6,359	$26,755
2	Public Utility Fee (Pursuant to HRS § 269-30)	108,057	454,629	0.500%	540	2,273
3	Franchise Tax (applicable to electric companies only) (Pursuant to HRS § 240)			2.500%		
4	*Total Revenue Taxes*				*6,899*	*29,028*
	Other Taxes					
5	Name					0
6	Total Other Taxes				0	0
7	Total Taxes Other Than Income Taxes				$6,899	$29,028

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Waiola O Molokai
Average Rate Base
Test Year Ending June 30, 2010

Line #	Description	[1] At June.30, 2009	[2] At June. 30, 2010	[3] Average
	Plant In Service	$3,333,813	$3,333,813	$3,333,813
1	Accumulated Depreciation Reserve	2,001,308	2,108,798	2,055,052
2	Net Plant-in-Service	1,332,506	1,225,016	1,278,761
	Deduct:			
3	Net Contributions in Aid of Construction	0	0	0
4	Customer Advances	0	0	0
5	Customer Deposits	(43,710)	(43,710)	(43,710)
6	Accumulated Deferred Taxes: Federal	7,932	(984)	3,474
7	Accumulated Deferred Taxes: State	0	0	0
8	Unamortized Hawaii General Excise Tax Credit	(18,651)	(12,121)	(15,385)
9	subtotal	(54,429)	(56,815)	(55,621)
	Add:			
10	Working Capital	26,509	26,509	26,509
11	Retirements	0	0	0
12	subtotal	26,509	26,509	26,509
13	Total at End of Year	$1,304,585	$1,194,709	
14	Average Rate Base For Test Year			$1,249,647

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Waiola O Molokai
Plant In Service
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] Balance as of 6/30/08	[3] 6/30/09 Additions	[4] 6/30/09 Retirements	[5] Adjust	[6] Balance as of 6/30/09	[7] 6/30/10 Additions	[8] 6/30/10 Retirements	[9] Adjust	[10] Test Year Balance as of 6/30/10
1	Kipu System Improvements	1982	33,751				$33,751				$33,751
2	Water System - Maunaloa	1987	365,071				365,071				365,071
3	Reservoir Improvements	1988	16,045				16,045				16,045
4	Reservoir Improvements	1989	41,398				41,398				41,398
5	Reservoir Improvements	1990	11,854				11,854				11,854
6	Reservoir Improvements	1991	4,600				4,600				4,600
7	Mipa 12" Waterline	1992	309,323				309,323				309,323
8	Lialalii Reservoir	1996	83,423				83,423				83,423
9	Potable Water System	1996	81,912				81,912				81,912
10	Maunaloa Village Water System	1996	1,639,674				1,639,674				1,639,674
11	Data System	1997	56,799				56,799				56,799
12	Maunaloa 12" Water Main	1997	247,636				247,636				247,636
13	Water Meters	1997	5,365				5,365				5,365
14	ML Reservoir Repair	1997	149,438				149,438				149,438
15	Kualapuu Ranch	1998	1,068				1,068				1,068
16	Kalae Kualapuu Ag	1999	8,776				8,776				8,776
17	Water Meter	2000	1,732				1,732				1,732
18	Replace Kualapuu Reservoir Roof	2001	124,503				124,503				124,503
19	Waiola Pipeline Replacement	2001	6,414				6,414				6,414
20	Kipu Pipeline Replacement	2001	1,646				1,646				1,646
21	4" Pipeline Kualapuu reservoir - Kipu	2001	141,908				141,908				141,908
22	Water Meters	2005	1,477				1,477				1,477
23	Meter Reading Equipment & Meters			0			0				0
24							0				0
25	Vehicles						0	0			0
26							0				0
27	Total		$3,333,813	$0	$0	$0	$3,333,813	$0	$0	$0	$3,333,813

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Waiola O Molokai
Accumulated Depreciation
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
Line #	Description	Ref:	Balance as of 6/30/08	6/30/09 Dep. Exp.	6/30/09 Retirements	Adjust	Balance as of 6/30/09	6/30/10 Dep. Exp.	6/30/10 Retirements	Adjust	Test Year Balance as of 6/30/10
1	Kipu System Improvements	1982	$33,751	$0			$33,751	$0			$33,751
2	Water System - Maunaloa	1987	365,071	0			365,071	0			365,071
3	Reservoir Improvements	1988	16,045	0			16,045	0			16,045
4	Reservoir Improvements	1989	41,398	0			41,398	0			41,398
5	Reservoir Improvements	1990	10,950	365			11,315	365			11,680
6	Reservoir Improvements	1991	4,600	0			4,600	0			4,600
7	Mipa 12" Waterline	1992	198,998	12,373			211,371	12,373			223,744
8	Lialalii Reservoir	1996	40,598	2,781			43,379	2,781			46,160
9	Potable Water System	1996	81,912	0			81,912	0			81,912
10	Maunaloa Village Water System	1996	761,407	65,516			826,923	65,516			892,439
11	Data System	1997	56,799	0			56,799	0			56,799
12	Maunaloa 12" Water Main	1997	111,436	9,905			121,341	9,905			131,246
13	Water Meters	1997	3,994	358			4,352	358			4,710
14	ML Reservoir Repair	1997	79,078	4,981			84,059	4,981			89,040
15	Kualapuu Ranch	1998	526	53			579	53			632
16	Kalae Kualapuu Ag	1999	4,060	439			4,499	439			4,938
17	Water Meter	2000	1,732	0			1,732	0			1,732
18	Replace Kualapuu Reservoir Roof	2001	34,861	4,980			39,841	4,980			44,821
19	Waiola Pipeline Replacement	2001	6,414	(0)			6,414	0			6,414
20	Kipu Pipeline Replacement	2001	1,646	0			1,646	0			1,646
21	4" Pipeline Kualapuu reservoir - Kipu	2001	38,233	5,641			43,874	5,641			49,515
22	Water Meters	2005	312	98			410	98			508
23	Meter Reading Equipment & Meters		0	0			0	0			0
24			0	0			0	0			0
25	Vehicles		0	0			0	0			0
26			0	0			0	0			0
27	Total		$1,893,817	$107,490	$0	$0	$2,001,308	$107,490	$0	$0	$2,108,798

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Per Audit	1982822
Diff	($89,005)

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Waiola O Molokai
Depreciation Expense (Book)
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] In-service date	[3] Total Cost	[4] Estimated Useful Life	[5] Acc. Dep. Balance At 6/30/08	[6] Year Ended 6/30/09 Dep. Exp.	[7] Acc. Dep. Balance At 6/30/09	[8] Year Ended 6/30/10 Dep. Exp.	[9] Test Year Acc. Dep. Balance as of 6/30/10
	Kipu System Improvements		1982	33,751	20	33,751	0	33,751	0	33,751
1	Water System - Maunaloa		1987	365,071	30	365,071		365,071		365,071
2	Reservoir Improvements		1988	16,045	30	16,045		16,045		16,045
3	Reservoir Improvements		1989	41,398	30	41,398		41,398		41,398
4	Reservoir Improvements		1990	11,854	30	10,950	365	11,315	365	11,680
5	Reservoir Improvements		1991	4,600	30	4,600		4,600		4,600
6	Mipa 12" Waterline		1992	309,323	25	198,998	12,373	211,371	12,373	223,744
7	Lialalii Reservoir		1996	83,423	30	40,598	2,781	43,379	2,781	46,160
8	Potable Water System		1996	81,912	20	81,912		81,912		81,912
9	Maunaloa Village Water System		1996	1,639,674	25	761,407	65,516	826,923	65,516	892,439
10	Data System		1997	56,799	15	56,799	0	56,799	0	56,799
	Maunaloa 12" Water Main		1997	247,636	25	111,436	9,905	121,341	9,905	131,246
11	Water Meters		1997	5,365	15	3,994	358	4,352	358	4,710
12	ML Reservoir Repair		1997	149,438	30	79,078	4,981	84,059	4,981	89,040
13	Kualapuu Ranch		1998	1,068	20	526	53	579	53	632
14	Kalae Kualapuu Ag		1999	8,776	20	4,060	439	4,499	439	4,938
15	Water Meter		2000	1,732	7	1,732	0	1,732		1,732
16	Replace Kualapuu Reservoir Roof		2001	124,503	25	34,861	4,980	39,841	4,980	44,821
17	Waiola Pipeline Replacement		2001	6,414	7	6,414	0	6,414		6,414
18	Kipu Pipeline Replacement		2001	1,646	7	1,646	0	1,646		1,646
19	4" Pipeline Kualapuu reservoir - Kipu		2001	141,908	25	38,233	5,641	43,874	5,641	49,515
20	Water Meters		2005	1,477	15	312	98	410	98	508
21	Meter Reading Equipment & Meters		2009	0	15	0	0	0	0	0
22				0		0				
23	Vehicles		2010	0	5	0		0	0	0
24				0		0				
25	Total			$3,333,813		$1,893,817	$107,490	$2,001,308	$107,490	$2,108,798

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Waiola O Molokai
Accumulated Deferred Income Taxes
Test Year Ending June 30, 2010

Line #	Description	[1] Life in years	[2] In-service date	[3] Total Cost	[4] Tax Depreciation Method	[5] Acc. Tax Dep. Balance as of 6/30/08	[6] 6/30/09 Tax Dep. Exp.	[7] 6/30/09 Adjustments	[8] Acc. Tax Dep. Balance as of 6/30/09	[9] 6/30/10 Tax Dep. Exp.	[10] 6/30/10 Adjustments	[11] Test Year Acc. Tax Dep. Balance as of 6/30/10
1	Kipu System Improvements		1982	$ 33,751		$31,493			$31,493			$31,493
2	WIP Kualapuu Reservoir		1990	10,949		9,727	489		10,216	489		10,705
3	Maunaloa Reservoir		1991	1,821		1,534	81		1,615	81		1,696
4	MLPA 12" Water line		1992	309,323		247,137	13,790		260,927	13,790		274,717
5	Water Transmission		1995	42,967		28,221	1,916		30,137	1,916		32,053
6	Automate Kaulapuu BO		1995	6,745		6,745			6,745			6,745
7	Kualapuu County Water		1995	70,629		45,141	3,149		48,290	3,149		51,439
8	Potable Water System		1996	57,802		37,509	2,577		40,086	2,577		42,663
9	Kualapuu Reservoir		1996	83,423		54,134	3,719		57,853	3,719		61,572
10	Office Equipment		1997	7,697		7,697			7,697			7,697
11	Maunaloa Water System		1997	1,637,898		1,016,758	73,067		1,089,825	73,067		1,162,892
12	Badger Water System		1997	68,519		42,532	3,057		45,589	3,057		48,646
13	36 Water Meters		1997	5,365		3,329	239		3,568	239		3,807
14	Maunaloa Reservoir		1997	149,438		77,524	6,668		84,192	6,668		90,860
15	Maunaloa 12" Water Main		1997	247,636		153,725	11,047		164,772	11,047		175,819
									0			0
16	Zoid 135 Kualapuu RA		1998	1,068		568	48		616	48		664
17	WA 116		1999	8,776		4,520	391		4,911	391		5,302
18	Water Meter		2000	1,732		1,732	0		1,732	0		1,732
19	Waiola Pipeline		2001	6,414		1,155	164		1,319	164		1,483
20	Kipu Pipeline		2001	1,646		296	42		338	42		380
21	Kualapuu Reservoir		2001	124,503		22,477	3,192		25,669	3,192		28,861
22	Water System Equip		2001	141,027		56,000	6,893		62,893	6,893		69,786
23	Water System Equip		2005	1,478		216	59		275	59		334
24												
25												
26	Meter Reading Equipment & Meters	15	2009	0	DDB 150		0		0	0		0
27												
28	Vehicles	5	2010	0	DB 200				0	0		0
29												
30												
31	Total			$3,020,607		$1,850,170	$130,586	$0	$1,980,756	$130,588	$0	$2,111,346
32	Accumulated Book Depreciation								2,001,308			2,108,798
33	Tax Depreciation (Over) Under Book								20,550			(2,549)
34	Composite Income Tax Rate								38.600%			38.600%
35	ADIT								$7,932			($984)

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Waiola O Molokai
Hawaii State Capital Goods Excise Tax Credit
("HCGETC")
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] In-service date	[3] Total Credit Amount	[4] Amortization Rate	[5] Acc. Amort. Balance as of 6/30/08	[6] 6/30/09 Amortization	[7] 6/30/09 Adjustments	[8] Acc. Amort. Balance as of 6/30/09	[9] 6/30/10 Amortization	[10] 6/30/10 Adjustments	[11] Test Year Acc. Amort Balance as of 6/30/10
1	Assets Added in		2005	$1,478	6.6700%	$394	$99		$493	$99		592
2									0			0
3	Ajustments for items 1996		1996	68,653	6.6700%	$55,110	$4,592		59,702	$4,592		64,294
4									0			0
5	Adjustments for items 1997		1997	16,098	6.6700%	$11,811	$1,074		12,885	$1,074		13,959
6									0			0
7	Adjustments for items 1998		1998	43	6.6700%	$28	$3		31	$3		34
8									0			0
9	Adjustments for items 1999		1999	351	6.6700%	$211	$23		234	$23		257
10									0			0
11	Adjustments for items 2000		2000	69	6.6700%	$37	$5		42	$5		47
12									0			0
13	Adjustments for items 2001		2001	10,944	6.6700%	$5,110	$730		5,840	$730		6,570
14									0			0
15	Adjustments for items 2005		2005	59	6.6700%	$12	$4		16	$4		20
16									0			0
17	Adjustments for items 2009		2009	0	6.6700%				0	$0		0
18									0			0
19									0			0
20	Total			$ 97,894		$ 72,713	$ 6,530	$ -	$ 79,243	$ 6,530	$ -	$ 85,773
21	Unamortized HCGETC Balance								$ 18,651			$ 12,121

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Waiola O Molokai
Working Cash
Test Year Ending June 30, 2010

Line #	Description	[1] Amount
1	Labor, PR Taxes & Employee Benefits	101,242
2	Fuel & Power	7,391
3	Cost of Sales	95,680
4	Treatment Charges & Chemicals	0
5	Materials & Supplies	13,581
6		
7	Affiliated Charges	9,660
8	Professional & Outside Services	3,156
9	Repairs & Maintenance ("R & M")	10,519
10	Rents	0
11	Insurance	16,000
12	Regulatory Expense	55,000
13	General & Administrative	5,885
14		
15		
16		
17	subtotal	318,113
18	Working Cash factor	12
19	Working Cash	26,509

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Waiola O Molokai
Historical summary
Test Year Ending June 30, 2010

Line #	Description	[1] 6/30/04	[2] 6/30/05	[3] 6/30/06	[4] 6/30/07	[5] 6/30/08	[6] Test Year 6/30/10
	Revenues						
1	Monthly Customer Charges	$0	$0	$0	$0	$0	$31,125
2	Customer Usage Charges	160,050	161,111	99,374	131,597	122,169	75,832
3							
4		160,050	161,111	99,374	131,597	122,169	106,957
5	Late Fees	1,254	739	389	343	139	300
6	Connection Fees						
7	TOTAL WATER REVENUES	$161,304	$161,850	$99,763	$131,940	$122,308	$107,257
	Expenses						
8	Labor, PR Taxes & Employee Benefits	$ 63,322	$ 69,750	$ 170,694	$ 127,325	$ 107,121	$ 101,242
9	Fuel & Power	6,035	7,032	8,009	8,961	12,507	7,391
10	Cost of Sales	186,095	181,844	131,280	133,291	152,546	95,680
11	Treatment Charges & Chemicals	843	6,361	(592)	0	0	0
12	Materials & Supplies	6,357	5,375	13,403	13,770	17,229	13,581
13	Affiliated Charges	19,528	18,913	19,606	22,911	21,502	9,660
14	Professional & Outside Services	6,260	310	62	48	11,313	3,156
15	Repairs & Maintenance ("R & M")	4,934	4,072	11,006	11,376	15,310	10,519
16	Rents	1,683	160	0	0	0	0
17	Insurance	3,672	11,207	26,223	20,317	12,128	16,000
18	Regulatory Expense						55,000
19	General & Administrative	3,379	3,991	5,201	5,359	5,991	5,855
20	Taxes Other than Income Taxes	8,269	7,142	5,221	5,617	6,000	6,899
21	Depreciation	153,977	151,747	136,823	136,802	136,092	107,490
22							
23	Income Taxes						
24	TOTAL EXPENSES	$ 464,354	$ 467,904	$ 526,936	$ 485,777	$ 497,739	$ 432,472
25	NET INCOME/(LOSS)	$ (303,050)	$ (306,054)	$ (427,173)	$ (353,837)	$ (375,431)	$ (325,215)

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Waiola O Molokai
Labor, PR Taxes & Employee Benefits
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	Expenses							
	Salaries & Wages							
1	Direct S&W		$47,504	$54,902	$52,730	$62,967	$48,337	$74,981
2	S&W Charged Thru Cost of Sales				33,721	29,701	30,281	
3	Total S&W		47,504	54,902	86,451	92,668	78,618	74,981
	Employee Benefits							
4	Medical & Dental		2,480	2,902	4,642	8,697	6,659	13,075
5	Workers Compensation		8,164	6,344	27,667	5,733	4,808	7,753
6	TDI		284	343	354	127	146	539
7	Group Life		89	74	84	27	0	235
8	LTDI		112	146	149	120	57	518
9								
10	Benefits Charged Thru Cost of Sales				43,388	11,924	11,551	
11								
12	Total Employee Benefits		11,129	9,809	76,284	26,628	23,221	22,120
	Payroll Taxes							
13	FICA		3,617	4,108	3,908	4,736	2,347	3,641
14	FUTA		115	129	129	133	96	149
15	SUTA		957	802	730	381	227	352
16								
17	Payroll Tax Charged Thru Cost of Sales				3,192	2,779	2,612	
18	Total pPayroll Taxes		4,689	5,039	7,959	8,029	5,282	4,142
19	Total PR Taxes & Benefits		15,818	14,848	84,243	34,657	28,503	26,262
20	Total All		$ 63,322	$ 69,750	$ 170,694	$ 127,325	$ 107,121	$ 101,242
21	Increase (%)			10.15%	144.72%	-25.41%	-15.87%	-5.49%
22	Ratio of Benefits to total all		0.177%	0.209%	0.087%	0.094%	0.053%	0.512%
23	Ratio of PR Taxes to total S&W		9.871%	9.178%	9.206%	8.664%	6.719%	5.524%

24 Notes:
25 Direct S&W adjusted by: 1) removing 3.0% increase; 2) removing wages asscociated with new position added between 2009 and 2010
26 total adjustment: $23,049
27 *Medical & Dental adjusted by: 1) decreasing by 50%*
28 total adjustment: $13,075
29 Payroll taxes adjusted by: 1) applying MPUI's original ratio of FICA, FUTA, SUTA to direct S&W
30 total adjustment: $4,082 (FICA – (3,858); FUTA – (3); SUTA – (221))

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Waiola O Molokai
Fuel & Power
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	Expenses							
	Electricity							
1	Kualapuu Booster Pump		3,391	4,437	4,904	4,755	6,971	4,304
2	Kualapuu Reservior		392	474	440	431	853	584
3	DHHL Booster		2,045	1,917	2,173	2,680	4,314	2,502
4	Other - Allocation		207	204	204	807	153	
	MLP Charges to WOM in Cost of Sales				288	288	216	
5								
6	subtotal		6,035	7,032	8,009	8,961	12,507	7,391
	Fuel							
7	None						0	0
8								
9	subtotal		0	0	0	0	0	0
10	Total Expense		$6,035	$7,032	$8,009	$8,961	$12,507	$7,391

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Waiola O Molokai
ELECTRIC CHARGES
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]
		Kualapuu Pump				Kalae Booster Pump				Kualapuu Reservoir				TOTAL		
Line #	Description	# of Days	KWH Usage	Total Charge	Charge Per KWH	# of Days	KWH Usage	Total Charge	Charge Per KWH	# of Days	KWH Usage	Total Charge	Charge Per KWH	KWH Usage	Total Charge	Charge Per KWH
										Kualapuu Reservoir						
1	7/25/06	32	1,037	$ 450	0.4335	32	1	$ 38	38.1400	32	45	40	0.8922	1,083	$ 528	0.4874
2	8/24/06	30	1,400	598	0.4272	30	1,530	651	0.4252	30	106	65	0.6119	3,036	1,314	0.4327
3	9/22/06	29	1,491	634	0.4251	29	480	227	0.4720	29	54	44	0.8119	2,025	904	0.4466
4	10/24/06	32	1,432	603	0.4208	32	470	220	0.4682	32	6	27	4.5167	1,908	850	0.4453
5	11/22/06	29	765	333	0.4353	29	220	119	0.5426	29	43	39	0.9056	1,028	491	0.4779
6	12/22/06	30	672	289	0.4307	30	390	182	0.4664	30	5	27	5.4200	1,067	498	0.4671
7	1/23/07	32	954	385	0.4031	32	480	210	0.4374	32	49	40	0.8192	1,483	635	0.4279
8	2/22/07	30	1,217	481	0.3951	30	350	162	0.4625	30	6	27	4.5167	1,573	670	0.4258
9	3/23/07	29	1,260	492	0.3903	29	440	193	0.4393	29	47	39	0.8340	1,747	724	0.4146
10	4/24/07	32	1,282	502	0.3916	32	1,120	443	0.3953	32	6	27	4.5167	2,408	972	0.4036
11	5/23/07	29	1,500	588	0.3923	29	540	233	0.4316	29	90	55	0.6156	2,130	877	0.4117
12	6/22/07	30	638	271	0.4246	30	1,430	566	0.3959	30	5	27	5.4200	2,073	864	0.4168
13	Total 6-30-07		13,648	$ 5,625	0.4122		7,451	$ 3,244	0.4353		462	458	0.9914	21,561	$ 9,327	0.4326
14	7/23/07															
15	8/23/07	30	1,618	674	0.4168	30	700	311	0.4437	30	50	41	0.8200	2,368	1,026	0.4333
16	9/24/07	32	1,767	743	0.4205	32	980	427	0.4355	32	49	42	0.8525	2,796	1,212	0.4333
17	10/27/07	30	1,589	659	0.4150	30	750	629	0.8383	30	49	41	0.8449	2,388	1,330	0.5568
18	11/23/07	30	1,585	661	0.4172	30	720	318	0.4424	30	372	170	0.4557	2,677	1,149	0.4293
19	12/24/07	31	703	323	0.4591	31	530	252	0.4746	31	5	27	5.4680	1,238	602	0.4860
20	1/24/08	31	916	436	0.4762	31	580	289	0.4985	31	5	29	5.7880	1,501	754	0.5025
21	2/25/08	32	1,024	491	0.4793	32	460	240	0.5216	32	457	227	0.4963	1,941	958	0.4933
22	3/25/08	29	1,244	588	0.4726	29	290	164	0.5661	29	187	107	0.5703	1,721	859	0.4990
23	4/22/08	28	1,245	592	0.4752	28	315	178	0.5666	28	40	46	1.1375	1,600	816	0.5098
24	5/23/08	30	1,428	695	0.4869	30	470	253	0.5374	30	6	29	4.8233	1,904	977	0.5131
25	6/24/08	32	1,339	672	0.5022	32	450	249	0.5543	32	34	40	1.1688	1,823	962	0.5275
26	Total 6-30-08		14,458	$ 6,535	0.4520		6,245	$ 3,310	0.5300		1,254	798	0.6360	21,957	$ 10,643	0.4847
27	7/24/08	30	1,414	752	0.5315	30	660	370	0.5601	30	5	29	5.7840	2,079	1,150	0.5532
28	8/25/08	32	1,445	890	0.6161	32	480	292	0.6092	32	188	124	0.6609	2,113	1,307	0.6185
29	9/24/08	30	1,261	729	0.5780	30	650	393	0.6044	30	911	525	0.5758	2,822	1,646	0.5834
30	10/24/08	30	1,139	632	0.5551	30	420	255	0.6071	30	5	29	5.7840	1,564	916	0.5858
31	11/24/08	31	878	471	0.5369	31	360	214	0.5948	31	6	29	4.8200	1,244	714	0.5743
32	12/24/08	30	473	252	0.5332	30	230	141	0.6121	30	187	109	0.5844	890	502	0.5644
33	1/26/09	33	527	261	0.4953	33	290	160	0.5517	33	6	29	4.8333	823	450	0.5468
34	2/23/09	28	644	292	0.4534	28	300	155	0.5167	28	5	29	5.8000	949	476	0.5016
35	3/24/09	29	749	316	0.4219	29	300	148	0.4933	29	189	94	0.4974	1,238	558	0.4507
36	4/23/09	30	1,048	408	0.3893	30	520	220	0.4231	30	42	38	0.9048	1,610	666	0.4137
37	5/22/09	29	722	284	0.3934	29	690	273	0.3957	29	5	29	5.8000	1,417	586	0.4136
38	6/24/09	33	1,080	407	0.3769	33	710	279	0.3930	33	94	56	0.5957	1,884	742	0.3938
39	Total 6-30-09		11,380	$ 5,695	0.500400		5,610	$ 2,900	0.516900		1,643	$ 1,120	0.681610	18,633	$ 9,714	0.521350
40	7/24/09	30	1,035	393	0.3797	30	340	153	0.4500	30	192	90	0.4688	1,567	636	0.4059
41	8/25/09	32	1,007	396	0.3933	32	330	153	0.4636	32	188	90	0.4787	1,525	639	0.4190
Adjustment for change in TY sales																
1	12 months sales ended 6/30/09			47,351							1,000		0.584440			
	CA projected TY sales			40,990												
	change			-13.43%								$ 584			$ 11,561	
	12 months water pumped ended 6/30/09			24,428				7,757								
	avg kwh / water pumped			0.466				0.723			1,000		0.584440			
	Unaccounted for and lost water factor			10.00%				10.00%				$ 584			$ 11,561	
	Projected water pumped			23,496				7,461								
Pro Forma for TY																
1	kwh		10,946				5,396									
	rate				0.393250				0.463640							
2	Expense			$ 4,304				$ 2,502				$ 584			$ 7,391	

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Waiola O Molokai
Cost of Sales
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	WOM Direct Expense							
1	Well 17 to Waiola		$ 30,573	$ 33,292	$ 31,057	$ 26,511	$ 26,612	$53,966
2	DHHL to Wailoa at Kalae		14,662	9,893	9,018	23,715	39,671	34,342
3	Potable at Waiola at Puunana		140,860	138,659	85,343	39,084	8,516	7,372
4	Use of Mountain Facilities						28,969	0
	Sub-Total		186,095	181,844	125,418	89,310	103,768	95,680
	MPL Charges for WOM - a/c # 615							
5	Salaries &Wages				33,721	29,701	30,281	Exh 10.1
6	Employee Benefits				43,388	11,924	11,551	Exh 10.1
7	Payroll Taxes				3,192	2,779	2,612	Exh 10.1
8	Electricity				288	288	216	Exh 10.2
9	Repair & Maintenance				7,011	3,646	4,219	Exh 10.9
10	Vehicle Fuel				6,241	5,791	6,561	Exh 10.5
11	Insurance				15,350	11,893	7,099	Exh 10.11
12	Communications				1,229	1,081	689	Exh 10.13
13	Administrative				484	706	391	Exh 10.13
14	Other Expense				1,531	1,521	397	Exh 10.13
15	Charges to Other Operations		0	0	(106,573)	(25,349)	(15,238)	
16	Sub-Total		0	0	5,862	43,981	48,778	
17	TOTAL		$ 186,095	$ 181,844	$ 131,280	$ 133,291	$ 152,546	$ 95,680

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Waiola O Molokai
Treatment Charges & Chemicals
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
1	Chemicals & Testing		$619	$5,776	($592)			$0
2								
3	Treatment Expense		224	585				0
4								
5								
6	Total		$843	$6,361	($592)	$0	$0	$0

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Waiola O Molokai
Materials & Supplies
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] 6/30/04	[3] 6/30/05	[4] 6/30/06	[5] 6/30/07	[6] 6/30/08	[7] Test Year 6/30/10
	WOM Direct Expense							
1	Supplies for Operations		$2,943	$593	$1,878	$2,383	$5,324	$2,624
2	Uniforms		233			393	0	
3	Fuel for Vehicles		3,097	4,580	5,058	4,968	5,245	4,590
4	Cleaning		84	202	226	235	99	169
5	Sub-Total		6,357	5,375	7,162	7,979	10,668	7,383
	WOM Direct Charges Previously Charged from MPL thru a/c # 615							
6	Fuel For Vehicles				6,241	5,791	6,561	6,198
7								
8	Sub-Total		0	0	6,241	5,791	6,561	
9	Total		$6,357	$5,375	$13,403	$13,770	$17,229	$13,581

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Waiola O Molokai
Affiliated Charges
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
1	Finance Dept Allocation		$19,528	$18,913	$ 19,606	$ 22,911	$ 21,502	
2	Pro Forma For TY							$ 9,660
3								
4								
5	Total		$19,528	$18,913	$19,606	$22,911	$21,502	$9,660

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Waiola O Molokai
Professional & Outside Services
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] 6/30/04	[3] 6/30/05	[4] 6/30/06	[5] 6/30/07	[6] 6/30/08	[7] Test Year 6/30/10
1	Engineering/Technical Services							
2								
3								
4	Legal Services		6,256	304	62			
5								
6								
7	Other Professional		4	5		48	11,313	
8								
9	Test Year Pro Forma							$3,156
10	Total Professional and Outside Services		$6,260	$309	$62	$48	$11,313	$3,156

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11 Notes

12 1 Concern with lack of detail for recurring cycle for Brokate charge of $8,800 and County Water of $2,213. Have removed impact of County Water since sales derived assumes full costs associated with Compan providing water w/o relying on County Response to CA-SIR-6 does not provide any information on cycle over which Brokate-type costs should be normalized.

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Waiola O Molokai
Repairs & Maintenance ("R & M")
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] 6/30/04	[3] 6/30/05	[4] 6/30/06	[5] 6/30/07	[6] 6/30/08	[7] Test Year 6/30/10
	WOM Direct Charges							
1	Plant		$2,847	$1,957	$1,530	$5,479	$10,160	$3,590
2	Vehicles		2,087	2,115	2,465	2,251	931	1,970
3								
4	Sub-Total		4,934	4,072	3,995	7,730	11,091	5,560
	WOM Direct Charges Previously Charged from MPL thru a/c # 615							
5	R & M Charges				7,011	3,646	4,219	4,959
6								
7								
8	Sub-Total		0	0	7,011	3,646	4,219	
9	TOTAL		$4,934	$4,072	$11,006	$11,376	$15,310	$10,519

10 Notes
11 Plant R&M adjusted to reflect five year average, instead of just using activity in 2008. In addition, adjustment made to remove impact of $4,022 of "other" expenses under $300

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Waiola O Molokai
Rents
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
# Line	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
1	Property rental							$0
2	Rent Expense							0
3	Vehicle & equipment rental		$1,683	$160				0
4								
5	Total		$1,683	$160	$0	$0	$0	$0

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Waiola O Molokai
Insurance
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
	WOM Direct Expense							
1	Insurance		$3,672	$11,207	$10,873	$8,424	$5,029	$8,000
2								
3								
4	Sub-Total		3,672	11,207	10,873	8,424	5,029	8,000
	WOM Direct Charges Previously Charged from MPL thru a/c # 615							
5	Insurance				15,350	11,893	7,099	8,000
6								
7								
8	Sub-Total		0	0	15,350	11,893	7,099	
9	Total		$3,672	$11,207	$26,223	$20,317	$12,128	$16,000

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Waiola O Molokai
Regulatory Expense
Test Year Ending June 30, 2010

Line #	Description	[1] Ref:	[2] Amount	[2] Total
	PREPARATION AND FILING			
1	Rate case consulting			
2	Regulatory		40,000	
3	Engineering			
4	Other			
5	Legal		20,000	
6	Travel		1,000	
7	Other non-labor		1,000	
8	Sub-Total			62,000
	DISCOVERY AND SETTLEMENT			
9	Rate case consulting			
10	Regulatory		25,000	
11	Engineering			
12	Other			
13	Legal		35,000	
14	Travel		2,000	
15	Other non-labor		1,000	
16	Sub-Total			63,000
	HEARINGS AND BRIEFING			
17	Rate case consulting			
18	Regulatory		10,000	
19	Engineering			
20	Other			
21	Legal		25,000	
22	Travel		3,000	
23	Other non-labor		2,000	
24	Sub-Total			40,000
25	Total			165,000
26	Amortization Period			3
27	Test Year expense			$55,000

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Waiola O Molokai
General & Administrative
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
Line #	Description	Ref:	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	Test Year 6/30/10
WOM Direct Expense								
1	Travel		$0	$812	$0	$118	$1,777	
2	Equipment Rental		20	68	75	69	84	
3	Admin & Off Supplies		576	1,243	684	500	277	
4	Telephone		22	85	39	61	49	
5	*Cellular*		1,113	903	832	704	439	
6	Postage		1,629	849	327	515	1,532	
7	Training					84	157	
8	Other		19	31			199	
9	Sub-Total		3,379	3,991	1,957	2,051	4,514	$3,178
WOM Direct Charges Previously Charged from MPL thru a/c # 615								
10	Communications				1,229	1,081	689	1,000
11	Administrative				484	706	391	527
12	Other Expense				1,531	1,521	397	1,150
13	Sub-Total		0	0	3,244	3,308	1,477	
14	Total		$3,379	$3,991	$5,201	$5,359	$5,991	$5,855

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Waiola O Molokai
Revenue Summary
Test Year Ending June 30, 2010

Line #	Description	[1] Meter Size	[2] # of Cust Bills Or Water Usage	[3] Base Rates Effective 1-13-93 Monthly Rate	[4] Base Rates Effective 1-13-93 Annual Revenue [2]*[3]	[5] Base Rates Effective 1-13-93 Total Revenue	[6] Temporary Rates Effective 9-1-08 Monthly Rate	[7] Temporary Rates Effective 9-1-08 Annual Revenue [2]*[6]	[8] Temporary Rates Effective 9-1-08 Total Revenue	[9] Proposed Rates Monthly Rate	[10] Proposed Rates Annual Revenue [2]*[9]	[11] Proposed Rates Total Revenue
1	Rate Increase Percent									320.731%		
	Monthly Customer Charge											
2	# of Customers (151) MRC	5/8" Meter	4,099	$5.00	$ 20,495		$5.00	$ 20,495		$21.00	$86,079	
3	# of Customers (152) MRC	3/4" Meter	49	$5.00	245		$5.00	245		$21.00	1,029	
4	# of Customers (153) MRC	1.0" Meter	211	$10.00	2,110		$10.00	2,110		$42.00	8,862	
5	# of Customers (154) MRC	2.0" Meter	211	$25.00	5,275		$25.00	5,275		$105.00	22,155	
6	# of Customers (158) MRC	8.0" Meter	12	$250.00	3,000		$250.00	3,000		$1,052.00	12,624	
7	# of Customers (190) TPI		-	$0.00	-		$0.00	-		$0.00	-	
8	# of Customers (241) KHY		12	$0.00	-		$0.00	-		$0.00	-	
9	# of Customers (200) KWA		-	$0.00	-		$0.00	-		$0.00	-	
10	Sub-Total					$31,125			$31,125			$130,749
	Water Usage Charge											
11	Percent increase in Usage Charge									325.652%		
12	Water Use for Test Year (000 gallons)		40,990	$1.85	75,832		$5.15	211,099		$7.8746	322,780	
13	Usage Revenue					75,832			211,099			322,780
14	Total Revenue					$ 106,957			$ 242,224			$ 453,529
15	Revenue Increase to Temporary Rates							$ 135,267				
16	Revenue Increase Over Temporary Rates									$ 211,305		
17	Total Revenue Increase from Present Rates										$ 346,572	

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Waiola O Molokai
Monthly Customers & Usage 12 Mos Ended 6-30-10
Test Year Ending June 30, 2010

Line #	Description	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]
				#	2009					2010				Fiscal Year Ended
		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	6/30/10
	WA (100)													
1	Gallons billed in 000 gallons	2,960	3,493	5,723	3,576	3,243	2,528	3,281	3,225	2,758	3,185	3,225	3,793	40,990
2	# of customers for Usage Billing	383	385	384	478	385	386	384	387	385	381	383	382	4,703
3	Average Usage per Customer (000) (L 1 / L 2)	7.7	9.1	14.9	7.5	8.4	6.5	8.5	8.3	7.2	8.4	8.4	9.9	8.7
	WA (115)													
4	Gallons billed in 000 gallons	-	-	-	-	-	-							-
5	# of customers for Usage Billing	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Average Usage per Customer (000) (L 4 / L 5)	-	-	-	-	-	-	-	-	-	-	-	-	-
	AG (130)													
7	Gallons billed in 000 gallons	-	-	-	-	-	-							-
8	# of customers for Usage Billing	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Average Usage per Customer (000) (L 7 / L 8)	-	-	-	-	-	-	-	-	-	-	-	-	-
	TOTAL ALL													
10	Gallons billed in 000 gallons	2,960	3,493	5,723	3,576	3,243	2,528	3,281	3,225	2,758	3,185	3,225	3,793	40,990
11	# of customers for Usage Billing	383	385	384	478	385	386	384	387	385	381	383	382	4,703
12	Average Usage per Customer (000) (L 10 / L 11)	7.7	9.1	14.9	7.5	8.4	6.5	8.5	8.3	7.2	8.4	8.4	9.9	8.7
	Number of Customers for Monthly Charge													
13	# of Customers (151) MRC	334	334	342	342	348	348							2,048
14	# of Customers (152) MRC	4	4	4	4	4	4							24
15	# of Customers (153) MRC	17	17	17	17	17	17							102
16	# of Customers (154) MRC	17	17	17	17	17	17							102
17	# of Customers (158) MRC	1	1	1	1	1	1							6
18	# of Customers (190) TPI		-	-	0									-
19	# of Customers (241) KHY	1	1	1	1	1	1							6
20	# of Customers (200) KWA		-	1	1									2
21	Total Customers For Monthly Charge	374	374	383	383	388	388	-	-	-	-	-	-	2,290

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Waiola O Molokai
Revenue Increase Phase-In
Test Year Ending June 30, 2010

Line #	Description	[1] Meter Size	[2] # of Cust Bills Or Water Usage	[3] Base Rates Effective 1-13-93 Monthly Rate	[4] Base Rates Effective 1-13-93 Annual Revenue [2]*[3]	[5] Base Rates Effective 1-13-93 Total Revenue	[6] Temporary Rates Effective 9-1-08 Monthly Rate	[7] Temporary Rates Effective 9-1-08 Annual Revenue [2]*[6]	[8] Temporary Rates Effective 9-1-08 Total Revenue	[9] PHASE 1 – Revenue Increase Monthly Rate	[10] PHASE 1 – Revenue Increase Annual Revenue [2]*[6]	[11] PHASE 1 – Revenue Increase Total Revenue	[12] PHASE 2 -- Full Proposed Rates Monthly Rate	[13] PHASE 2 -- Full Proposed Rates Annual Revenue [2]*[9]	[114] PHASE 2 -- Full Proposed Rates Total Revenue
1	Rate Increase Percent									93.5%			320.731%		
	Monthly Customer Charge														
2	# of Customers (151) MRC	5/8" Meter	4,096	$5.00	$ 20,480		$5.00	$ 20,480		$15.00	$ 61,440		$21.00	$86,016	
3	# of Customers (152) MRC	3/4" Meter	48	$5.00	240		$5.00	240		$15.00	720		$21.00	1,008	
4	# of Customers (153) MRC	1.0" Meter	204	$10.00	2,040		$10.00	2,040		$30.00	6,120		$42.00	8,568	
5	# of Customers (154) MRC	2.0" Meter	204	$25.00	5,100		$25.00	5,100		$75.00	15,300		$105.00	21,420	
6	# of Customers (158) MRC	8.0" Meter	12	$250.00	3,000		$250.00	3,000		$750.00	9,000		$1,052.00	12,624	
7	# of Customers (190) TPI	0	-	$0.00	-		$0.00	-		$0.00	-		$0.00	-	
8	# of Customers (241) KHY	0	12	$25.00	300		$0.00	-		$75.00	900		$105.00	1,260	
9	# of Customers (200) KWA	0	4	$0.00	-		$0.00	-		$0.00	-		$0.00	-	
10	Sub-Total					$31,160			$30,860			$93,480			$130,896
	Water Usage Charge														
11	Percent increase in Usage Charge												325.652%		
12	Water Use for Test Year (000 gallons)		50,000	$1.85	92,500		$5.15	257,500		$5.6330	281,650		$7.8746	393,730	
13	Usage Revenue					92,500			257,500			281,650			393,730
14	Total Revenue					$ 123,660			$ 288,360			$ 375,130			$ 524,626
15	Revenue Increase To Temporary Rates			Line 14, Col 8 - Col 5				$164,700							
16	Phase 1 Revenue Increase			Line 14, Col 11 - Col 8							$ 86,770				
17	Phase 2 Revenue Increase			Line 14, Col 14 - Col 11									$ 149,496		
18	Total Revenue Increase from Present Rates			Line 14, Col 14 - Col 5											$400,966
19	Percent of Phase 1 Increase above Present Rates			Line 14, (Col 11 - Col 5) / Col 5								203.4%			
20	Percent of Phase 1 Increase above Temporary Rates			Line 14, (Col 11 - Col 8) / Col 8								30.1%			
21	Percent of Total revenue Increase over Present Rates			Line 14, (Col 14 - Col 5) / Col 5											324.3%
22	Percent of Phase 2 Increase over Phase 1 Revenue Level			Line 14, (Col 14 - Col 11) / Col 11											39.9%
23	Effective Revenue Increase from Phase 1 Revenue			Line 16 / (Line 16 + Line 1)								36.73%			

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S DIRECT TESTIMONY AND EXHIBITS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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TIMOTHY BRUNNERT
PRESIDENT
STAND FOR WATER
P.O. Box 71
Maunaloa, HI 96770

1 copy
by U.S. Mail

DATED: Honolulu, Hawaii, January 13, 2010.